How do you choose the right type of service for your business?

Do you deliver what your customers really want? Customers in all types of manufacturing companies increasingly expect the products they purchase to be supported by services, or perhaps even entirely replaced by other purchasing models.

Customers increasingly require not just a physical product, but a total package solution that meets their specific business challenges.

An ideal business opportunity

Generally, it is more expensive to deliver physical goods than it is to provide services, and the profit margin for services is typically higher than for physical products. In a market with fierce competition and where it is difficult to compete on price alone, developing a range of services is an ideal business opportunity for manufacturing companies. Services can pave the way for strengthening your business, creating added value for customers and expanding your product portfolio, while increasing revenue. So, there are many excellent reasons to make services an integrated part of the business.

Many manufacturing companies are already in the process of restructuring their business to provide comprehensive, often digital, customer solutions. Among the companies that are most skilled at doing this, service solutions contribute up to 30-35% of their turnover. There is a vast potential, especially for small and medium enterprises (SMEs) for growth and increased customer loyalty if you venture into developing services in addition to physical products - also called ‘servitization’. 1

It requires customer insight

Customer insight is crucial to be successful in integrating services into the product portfolio. Basically, it’s about understanding the customer’s everyday life: What is the significance of our delivery in their value chain? How do they deal with breakdowns? Can we help the customer to become more efficient?

It’s essential to have this knowledge before developing your services. It’s an excellent idea to involve customers early in the development process so that you develop services that provide real value for the customer.
Choosing the right type of service

Servitization is about expanding your business with product-related services for your customers. Once you have taken the first step and achieved customer insight, how do you proceed and choose the service or services that match your customers’ needs? Let’s take a closer look.

You can find inspiration in Ulaga and Reinartz’s\textsuperscript{2} model for service types. The model is based on extensive empirical data and on the basis of the value creation you want to give your customers.

There are two main types of services: product-related services and services connected to the customer’s processes. Each of these can again be divided into input and output-based services, i.e. services that focus on performing a function for the customer, or services where you help your customer to achieve a specific result. The four service types are illustrated in Figure 1.

The four service types

[Diagram showing the four service types: Product Life-Cycle Services (PLS), Asset Efficiency Services (AES), Process Support Services (PSS), and Process Delegation Services (PDS).]
Product Life-Cycle Services

The most basic and common service type is Product Life-Cycle Services, where you typically offer services such as preventative maintenance and support. These are service contracts designed to ensure that the product works for the customer. Service contracts provide a fixed contractual basis between a supplier and customer that describes, for example, how quickly the supplier must respond to a problem, whether you always have spare parts in stock, service intervals, support hours, etc.

When offering Product Life-Cycle services as a supplier, it’s crucial that you, together with the customer, clarify what the content of the contract should be, based on what delivers value for the customer. If the customer only needs support between 8 a.m. and 4 p.m. on weekdays, for example, then there is no need to offer support 24/7.

Tiered service models

International packaging manufacturer, Schur uses this type of service to develop their ‘service by agreement’ concept. The concept is divided into 5 service levels, where level 1, Schur Basic, covers the basic and most necessary preventative maintenance of the packaging machines and level 4, Schur Hot Care, gives the customer access to 24-hour technical support every day of the year. At level 5, Schur Star Support, services are tailored to the customer’s needs. With this division, each Schur customer can choose exactly the level of service that matches their wishes and needs.

Asset Efficiency Services

The next service type in the figure, Asset Efficiency Services, includes predictive maintenance of production equipment - often based on real-time data. With this type of service, the supplier promises the customer to achieve a specific result through the use of their product. To fulfil that promise, product data is collected while it is in use; for example, when equipment breakdowns occur and their duration. From the collected data, the customer can see for themselves how the equipment works and act on that knowledge.

There are many mutual benefits in the customer allowing the supplier access to this data. The supplier can help to understand and act on the collected data enabling prompt responses, thus avoiding, for example, breakdowns and repairs. At the same time, as a supplier, you gain vital knowledge about how products are used by the customer.

Condition based monitoring

Machine manufacturer, Andertech supplies machinery and equipment, including extruders, to the plastics industry, and they have added IoT sensors to their machines. The sensors collect data on, for instance, temperature, pressure and vibration while the machines are in use. Via a cloud service, data is forwarded to Andertech, enabling the manufacturer to monitor how the machines are performing and know when they require maintenance. In this way, the customer has peace of mind because they know that Andertech monitors the state of their system and can react proactively before the system breaks down. This type of service is called condition-based monitoring.
**Predictive maintenance**

Basically, predictive maintenance is about predicting when production machines need service, so the machines only need to be serviced when necessary. The customer can save the annual service visit and only call an engineer when there is a real problem with the machine.

The electronics company, Micro Technic uses IoT technology to predict when a customer will have a breakdown if action is not initiated; so-called predictive maintenance. For example, Micro Technic has made a sensor for a Danish system integrator for monitoring ball bearings on large centrifuges. The ball bearings make a distinctive sound as they rotate and, when worn, the sound changes. The sensor detects the changes in the sound, and when it does, the system sounds an alarm and announces when it is time for a service visit. In this way, the customer can avoid unforeseen breakdowns and, instead, plan the replacement of the ball bearings when it fits into the production plan, which can mean substantial savings for the customer.

**Process Support Services**

For the third service type, Process Support Services, we move into the customer’s processes. The purpose of this type of service is to assist and improve the customer’s business processes. To be successful with this type of service, it’s crucial to understand the customer’s processes and exactly where and how to develop a service that supports the customer’s business processes.

Fyns Kran Udstyr, which supplies and certifies cranes, found inspiration in this type of service to further develop their range of services. Dialogue with their customers revealed that the customers were dissatisfied with having to wait a long time to receive their crane certificates. At the same time, customers found it difficult to keep track of the statutory certificates and lacked an overview of which cranes were most recently certified and which were due to be approved soon. The customers wanted to have it all in one central and easily accessible place.

**Streamlined business processes**

Fyns Kran Udstyr acted on this customer dialogue by streamlining their business processes, so that certificates were issued faster. They also created a digital solution where customers can access their certificates quickly and easily via an online portal. In this way, the customer’s employees can also see the certificates when standing at a machine on a construction site.

In addition, Fyns Kran Udstyr offers to develop, with the customer, an approval plan for their cranes, so that the customer has an overview of which cranes they can use and which to put on hold until the approval is completed. In this way, Fyns Kran Udstyr’s business processes are now systematised and adjusted to the customer’s everyday life and needs, so that the customer also experiences improved efficiency.
Process Delegation Services

The fourth and last category in the service model, Process Delegation Services, is an advanced service model where the supplier owns the production equipment and the customer only pays according to use; for example, per unit produced or time spent.

The advantage of this service model is that the customer does not have to invest in expensive production equipment, which stimulates a quicker and easier purchase decision for the customer. At the same time, this service model encourages more long-term solutions, as the supplier owns, for example, the packaging machine that is with the customer, and has an incentive to produce dependable and reliable machines that require a minimum of maintenance and spare parts.

Pay-as-you-use

Egatec, which produces automation solutions within packaging and palletising, uses this type of service to develop their ‘Pay-as-you-use’ package service. Here, the customer has automatic packing robots delivered, installed and commissioned free of charge and then pays according to use. The concept is particularly attractive to customers in small and medium-sized companies, who avoid financial ties and large-scale investment needs.

Service as an integral part of the business

The examples above show that servitization offers many opportunities for industrial companies. If you understand your customers’ needs and gain insight into their challenges, there are many benefits to thinking in terms of service and strategic service development as an integral part of the business. By offering services that reflect the needs of the customer and that are thoroughly integrated into their processes, you achieve higher customer loyalty and stronger collaboration with your customers, both in the short- and long-term.

Sources
1 Servitization is the transformation of industrial companies from primarily being a product supplier to selling more product-related services. Source: servitize.DK
2 Ulaga & Reinartz, 2011
3 Erhverv, Week 18 2019
4 https://egatec.dk/australian-bodycare-vaelger-pay-per-use-automation/