



# Going the servitization way

Become a Renewable  
Enterprise by adding  
the x-factor of service  
to your business model





Business these days is getting rather philosophical. To a growing extent, products and services are characterized not just by what they are, but by what they do, and how they do it – and the businesses behind them are packaging their offer accordingly.

**This approach has been termed servitization.**



For instance, Rolls Royce Aerospace has moved from selling aircraft engines to a 'Power-by-the-Hour'<sup>TM</sup> model, so airlines only pay for productive flying time. Similarly, Michelin is charging car fleet operators by the kilometer driven, rather than just selling tires.

There are several interesting things about these new business models. The first is that you are taking the asset, adding services such as repairs and maintenance to it, and **charging customers based on a pre-agreed outcome or metric**.

The second is that it is highly customer-oriented: **the pricing is based on real-world usefulness**, and not on the asset merely as a commodity. It enables manufacturers to differentiate themselves against lower-cost competitive

products that are the frequent result of globalization and free trade.

A third point, which is related to the previous one, is that it's therefore in the interests of the provider, and not just of the customer, that **the product or service operates as efficiently as possible** – which is another reason why, as you'd expect, Michelin is developing longer-lasting tires, for instance.

And the fourth interesting point is that the entire approach is predicated on the assumption that **systems are in place and very agile**, that can not only keep track of performance in the field, of general product and service quality, and of variables such as fluctuating component and labor costs, but that can also adjust themselves seamlessly and swiftly to all these changing circumstances.

## Servitization model types – a spectrum of sophistication

### Bundled Product support services

- Customer owns product but buys it as part of service which might include components such as a Service Level Agreement (SLA), extended warranty or maintenance contract, delivery, product installation, spare parts, updates/upgrades, repairs, training and consultations

### Usage and consumption

- Supplier owns product, and customer pays a set fee (subscription) for sole use of product or service for a predefined period of time
- If the contract is non-exclusive, the product may be used by another customer when the contract is complete

### Outcome-based contracts

- Product fully owned and serviced by supplier
- Customer only pays for actual outcome, not for the whole product. For example, payment to a robotics supplier based on reduced lead-time, less product line rejects and lowering the cost per product

# Benefits with SAP S/4HANA® at the Core

**SAP S/4HANA is not just a new platform. It is designed for one integrated architecture. While we use the term manufacturers more often, servitization can be applied to any business, and SAP S/4HANA helps support any business in their digital priorities, by being the process, capability and intelligent backbone of the company.**

**And what does that really mean? It means you are ready for a cloud-based, scalable, end-to-end solution that revolutionizes your Customer eXperience (CX) and revenue streams moving to an as-a-service model that could run in parallel to your existing business model.**

## For customers

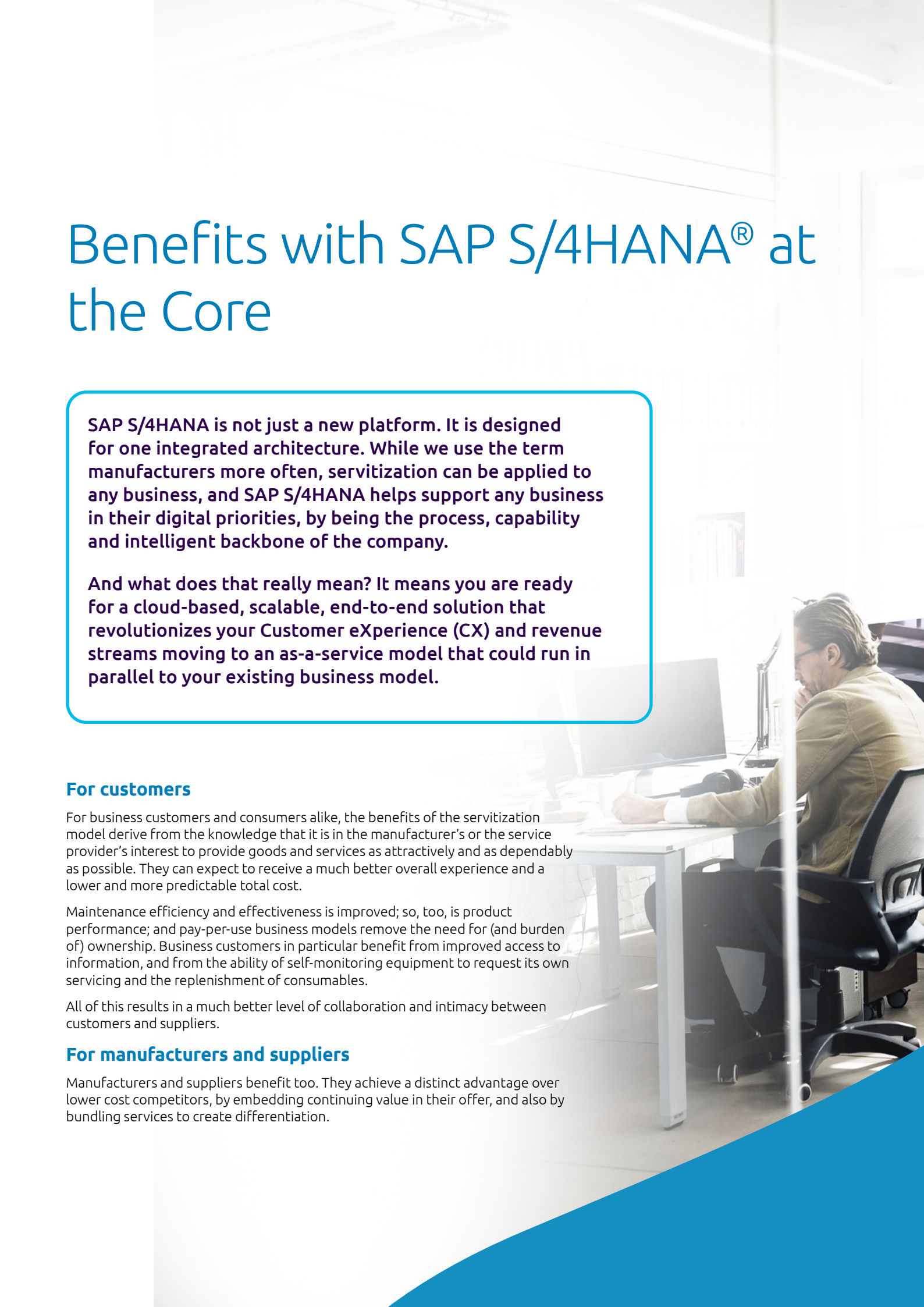
For business customers and consumers alike, the benefits of the servitization model derive from the knowledge that it is in the manufacturer's or the service provider's interest to provide goods and services as attractively and as dependably as possible. They can expect to receive a much better overall experience and a lower and more predictable total cost.

Maintenance efficiency and effectiveness is improved; so, too, is product performance; and pay-per-use business models remove the need for (and burden of) ownership. Business customers in particular benefit from improved access to information, and from the ability of self-monitoring equipment to request its own servicing and the replenishment of consumables.

All of this results in a much better level of collaboration and intimacy between customers and suppliers.

## For manufacturers and suppliers

Manufacturers and suppliers benefit too. They achieve a distinct advantage over lower cost competitors, by embedding continuing value in their offer, and also by bundling services to create differentiation.





At the same time, they increase their customer lifetime value, they extend their margins, and they achieve lower churn rates – because when the product becomes part of a continuing service, there is much less temptation for customers to make a switch.

What's more, manufacturers and suppliers gain insight into product and service usage, so they can be more responsive to customer needs – generating sustainable long-term growth.



## Critical success factors

The viability of the servitization model is, as we've noted, dependent on the availability of systems and business practices that can monitor performance and other variables in real time – not just for individual products in the field, but across the enterprise.

The main enabler is technology that can support the automation of the business model in a way that can be scaled and automated. This includes connectivity such as wi-fi and mobile data connections, mobility, data integration and streaming from remote devices and predictive analytics. Examples include sensors to report back consumption, usage or equipment problems from remote sites and assets – such as Rolls Royce engines on planes, which feed back data via satellite. This information can be used to predict and prevent problems occurring that could require downtime.

But the necessary technology only partly consists of all this connectivity. It's the main enterprise platforms that are critical, because it is here that complex bundles of products and services will be modeled and maintained. It's here that all the automated sensor feedback that is relevant to billing, such as asset uptime, usage, or telemetry data, will be processed and interpreted. And it's here that all those other variables, such as market conditions, regulatory changes, competitive activity, and component and labor costs, will be brought together and benchmarked against current customer packages to ensure they stay on point.

# Moving to a servitization model can be a challenge

Organizations can be characterized not by what they make, but by what their products make possible.

This transformation is needed in order to ensure customers understand the value proposition and are involved in designing the service. There will of course be system changes needed to support the end-to-end process, and a need for increased collaboration and data sharing with and from customers. However, the main impact will be on service design, on organizational strategy, and on how enterprise-wide digital transformation is to be approached in a way that achieves the level and kind of servitization the business seeks. Internally, a change will be needed in mindset and in culture, and possibly also in attitude to risk. Organizational changes may be needed to align products, technology, finance, operations, the supply chain and customer services to the new service. Finally, there is the likelihood of increased costs in the short term, and revenue could be deferred if moving to a subscription model from sale & service. All this can be hard for some organizations to absorb and justify. This, in short, will be like entering a foreign country: they do things differently here and it takes a bit of time to acclimatize.

# Creating a roadmap

The organization will need to begin by taking stock – and in particular, by assessing the markets in which it operates, and its own maturity in those markets and market sectors. Does it currently provide a basic product, or does it add value to it in some way? Does it consider it provides a service rather than products, and if so, to what extent does that service – or those services – define the business? It also needs to be sure it understands its own market value proposition.

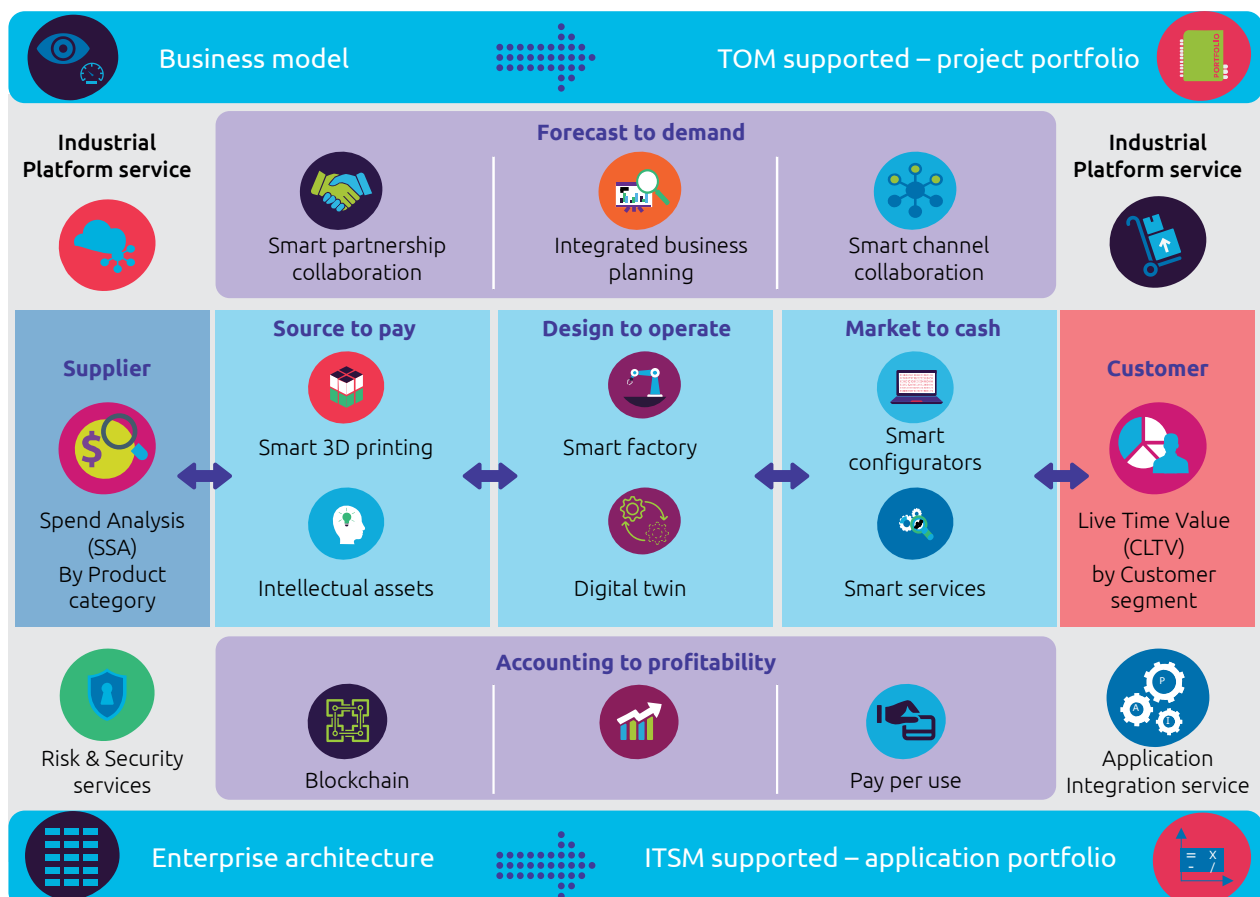
The maturity assessment can include trialing a servitization-based business model with one or a handful of customers, in order to understand the commercial, organizational and technology changes needed to support and scale the approach. For example, businesses may find they are going to have to amend contracts and sales orders, receive pertinent metrics back from their customers, perform predictive

maintenance on assets, and then bill for the bundled service, together with relevant costing and revenue allocation.

The target operating model to which the organization wants to move needs to recognize the fact that servitization will have an impact on all business processes, from the supply chain through manufacturing to the customer, from procurement to billing, from strategy to execution (see Figure 1). What's more, it will have an impact on all associated application platforms.

All these processes and applications need to be accommodated – which is why the architecture that meets this requirement has to be comprehensive, smart, agile, and digital, including an asset management platform that encompasses the design, build, maintenance and operation of its products, as well as a broad ecosystem that includes suppliers, partners, and customers.





Figure 1: **Servitization has an impact on all business processes**



# Selecting an architecture

What attributes should organizations seek in a servitization-oriented architecture?

Many multinational enterprises have already adopted the SAP platform, and the transition they are currently making to its new, powerful, digital generation will provide them with a firm foundation on which to build a servitization approach:

<b>End-to-end processes</b> 	Solutions built on common master data, domain models, and a single platform
<b>SAP</b>	With SAP S/4HANA® for advanced variant configuration, SAP is massively extending its capabilities within the Digital Core
<b>SAP Customer Experience®</b>	With SAP Customer Experience® Sales Configure, Price Quote (CPQ), SAP owns the market-leading CPQ solutions for line-of-business sales
<b>Industry expertise</b> 	SAP can help make sense of customers' data in the specific context of their businesses, using insights about their own performance to optimize algorithms
<b>Variant configuration</b> 	SAP owns the market-leading solution for configurable products in ERP. It is the Digital Core of any Intelligent Enterprise, and has been the largest player in this market for more than 25 years
<b>Digital intelligence</b> 	SAP has started to embed intelligence directly into core solutions as part of customers' standard road maps, so they do not need to create a separate data lake or purchase additional tools
<b>SAP Cloud Platform</b> 	Microservice-based integration approach facilitating integration and extension of processes  Product Configuration Intelligence is provided: a machine learning-based analytics toolset focusing on product configuration-related aspects
<b>Asset Management</b> 	A smart and future-ready networked asset managed platform



## Capgemini's approach to servitization

The servitization concept is facilitated by Capgemini's approach to digital business transformation which we call the Renewable Enterprise, and by its strengths specifically in managing enterprise-level transitions to SAP S/4HANA®.

With support from Capgemini, organizations can learn as they transact; earn revenue even while they are exploring new avenues of income; achieve efficiency; and establish a consistent but flexible digital platform that can accommodate current and future business needs.

Servitization is facilitated by enabling organizations to:

- Quickly trial new service offerings and commercial models
- Make the move to a service-based approach in a controlled, risk-mitigated way
- Adapt quickly to changing market and customer needs
- Put the user experience at the center, and allow for easy enhancement
- Embrace the potential of SAP, cloud platforms, third-party solutions, and microservices

With SAP S/4HANA®, SAP Customer Experience®, SAP Cloud Platform, Analytics and Asset Intelligent Network (AIN), Capgemini can provide all the components needed for a single, streamlined and world-class servitization approach, covering everything from modeling complex bundles of products and services, to automated feedback of sensor metrics relevant to asset uptime, usage, telemetry data or complex sales and billing. Our approach also recognizes that other best of breed solutions might already be in place such as Salesforce as a customer platform and we can adapt our architecture accordingly.

## Servitization is Simple & Transformational

*With Capgemini's Renewable Enterprise vision, you can now overcome business challenges in adopting servitization, including:*

- *Complete system landscape overhaul along with a shift in mindset and culture*
- *Service design, organizational strategy and overall data transformation*
- *Alignment of product, technology, finance, operations, supply chain and customer services for a frictionless enterprise*

# Finding a partner

Servitization is a journey and Capgemini with SAP S/4HANA as the platform of choice allows your business to be flexible and support the new different options and changes as the business model changes.

Your journey to servitization need not be complex. Capgemini helps structure and design a tailored pilot for you to run alongside and see, how this would translate for your organization!

## Why Capgemini is the right partner for your servitization journey

- Expertise and accelerators in industries to which servitization is particularly suited:
  - Consumer products, retail & distribution
  - Manufacturing, automotive & life sciences
  - Energy, utilities & chemicals
  - Telecommunications, media & entertainment
- A reference architecture that can accelerate and reduce risk for any required business model changes
- Experience with assessment of 90+ customers including leaders in the Fortune 500
- Full spectrum of capabilities from business strategy and innovation, to application and infrastructure design, build and support, upto business enablement and operations
- Strong and proven SAP capabilities including certifications in key elements of the architecture
- Business consulting, change management and technology expertise
- Strategic partnership with SAP and broad experience on SAP delivery projects



# What next?

Do you want to innovate at scale? Can one asset scale up to 1,000,000 assets and can you manage them? From pricing to maintenance?

Capgemini's solution is simple despite servitization being one of the most integrated and complex solution to deliver, with links to usage data, product definition, manufacturing info, sales, configuration of product etc., because of our unique architecture approach and template builds!

Let's make something complex and integrated - simple!



## About Capgemini

Capgemini is a global leader in consulting, digital transformation, technology, and engineering services. The Group is at the forefront of innovation to address the entire breadth of clients' opportunities in the evolving world of cloud, digital and platforms. Building on its strong 50-year heritage and deep industry-specific expertise, Capgemini enables organizations to realize their business ambitions through an array of services from strategy to operations. A responsible and multicultural company of 265,000 people in nearly 50 countries, Capgemini's purpose is to unleash human energy through technology for an inclusive and sustainable future. With Altran, the Group reported 2019 combined global revenues of €17 billion.

Learn more about us at

[www.capgemini.com](http://www.capgemini.com)

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