



## Standstill in technology services?

Is the industry being left behind in the "Smart Service Welt"?

### Service is becoming more and more important for the industry

The fact that megatrends such as Industry 4.0 have been driving the mechanical and plant engineering industry is nothing new. Digitization has been quite prevalent in products and production processes for a while now. Companies from Germany and Switzerland are worldwide market leaders in technology in many markets.

Things look good in service on the surface, too. In a survey of Sales and Marketing managers, of about fifty companies from Germany and Switzerland at the largest industrial fair in the world in Hanover, 96% of all study participants confirmed that they offer product-related services such as maintenance and repair services. "Service is a hygiene factor, without which we cannot sell our quality machines," was the basic tone of the study that the DZG conducted (Deutsches Zentrum für Geschäftsaufbau - German Center for Business Development) in cooperation with the consulting firm Infront Consulting & Management in Hamburg. Just under three-quarters of all manufacturers offer services based on usage data to optimize availability and utilization. This indicates that trends such as Remote Monitoring – i.e. the remote system-supported monitoring and optimization of systems – are now firmly in place. After all, more than half of the companies surveyed also provide fleet services, i.e. services for machinery from in-house production, and so-called full-service, i.e. packages of financing, maintenance, remote monitoring and, e.g. materials and supplies.

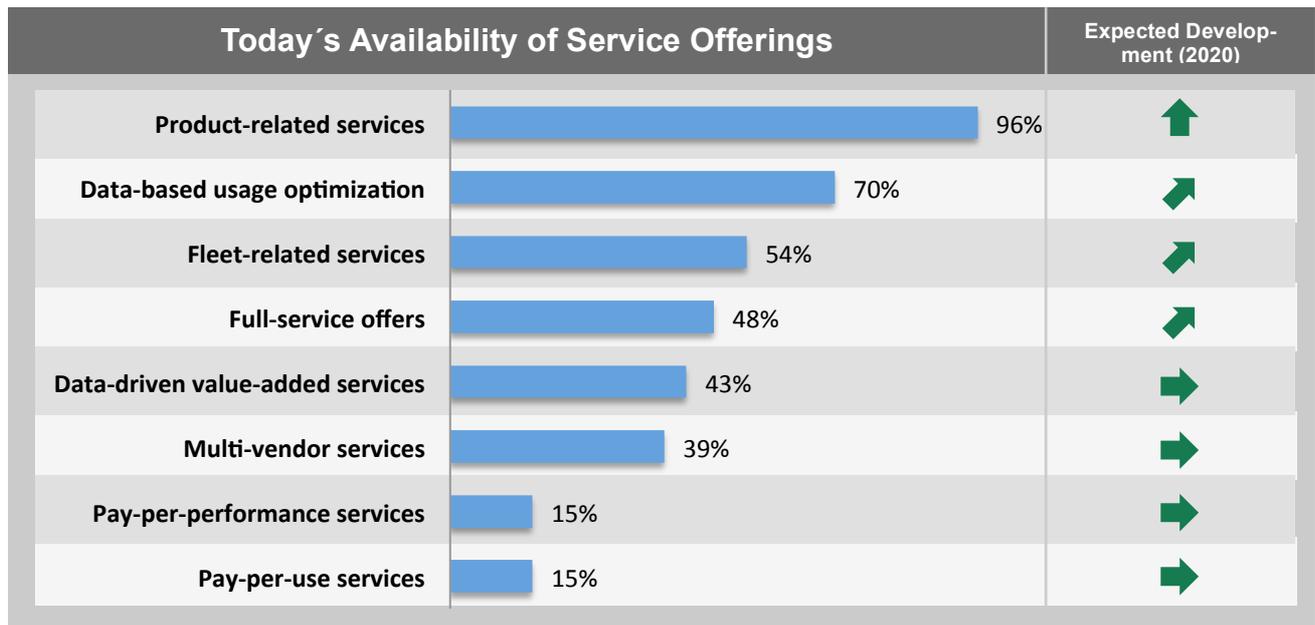


Figure 1: Today's availability of service offerings in mechanical and plant engineering  
(Arrows: expected growth in importance by 2020)

Source: DZG/ Infront, May 2015, "State of the Art in Industry Services" survey of about 50 industrial enterprises.

A clear majority of businesses expect strong growth again in the importance of services for the next five years. A producer of metallurgical induction solutions states for the record: "In 5 years, service will be more important than products. "Of course, some product categories, such as compressors and vacuum technology are more service-intensive than other sectors, whose products such as seals or drive technology are deeply integrated into larger systems.

The heavily increased importance for service is valid for the entire business model, independent of product categories, customer segments or sales regions, and applies to large and medium size manufacturers even more than for small providers. Because: "Competing with Asian manufacturers, differentiation in Europe must be achieved through service, for example, through expert advice and support of entire machine parks." One might therefore assume that in the "Smart Service Welt" – the title of a current program of the Federal Ministry of Economics and Energy – everything is fine.

## Real Smart Services have apparently not yet prevailed

The DZG study also indicates imbalances in the services offerings of German mechanical and plant engineering firms, says Steffen Böning, CEO of DZG from Hamburg.

Thus, fewer than two out of five companies offer maintenance services for the products of their competitors, as well. As customers are often not monogamous in their choice of equipment, their needs for a unified multi-vendor service often go unmet. However, multi-vendor services are just a strategic tool for more growth, especially in saturated markets when one has resolved the practical problems in dealing with spare parts and expertise as manufacturers. Independent service providers often demonstrate the fact that this, in principle, is possible.

A mere 15% of participating sales and marketing managers also report that their firms offer flexible service concepts with accompanying business models such as pay-per-use or pay-for-performance. Only 37% of respondents expect a trend away from investment towards rent (Capex to Opex) and stronger "on demand" use among their customers. This is quite amazing since concepts are already quite well known such as "Total Care" by Rolls Royce or "Power by the Hour" by GE, which sold the actual hours of flight instead of aircraft engines as well as delivering and invoicing them.

For some industries, remaining with a core model from product sales with bolt-on services is still the right strategy. In other high-tech industries, such as IT hardware and software, as well as new equipment categories such as 3D printing, rapid growth of the so-called technology-as-a-service business models can already be observed.

### The threat of data-driven business models at the customer interface

Between 70 and 80% of companies surveyed expect changes in customer needs in the future, in the same way they have become decisive in the IT industry: with even higher availability and functionality of the products, but above all, a faster time-to-market and geographical expansion of the customer's own business supported by purchased or rented technology. This means that global go-to-market strategies are key drivers of expected changes.

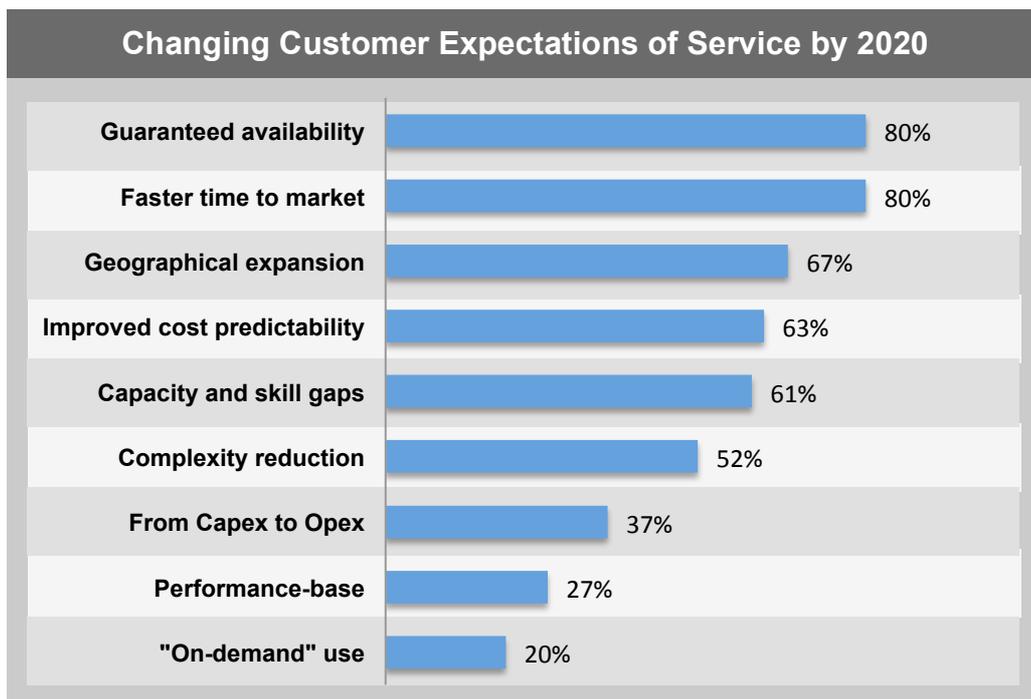


Figure 2: Drivers of changing customer needs in terms of service in mechanical and plant engineering

Source: Infront Consulting May 2015 "State of the Art in Industry Services" survey of about 50 industrial enterprises.

Thomas Sindemann, Founding Partner at Infront Consulting explains: "We are experiencing the effects of a massive restructuring from license to rental models at companies such as SAP and Cisco. Many machine and plant manufacturers are experimenting with such technology-as-a-service models on a small scale. The fact that the surveyed sales managers have hardly mentioned this also shows how much current structures are aligned

to the business model product sales." In other industries, the technology-as-a-service models have usually prevailed as an innovation on the supply side, because they satisfy latent customer needs. The experts at Infront therefore specifically recommend that potential companies develop their own technology-as-a-service models and to systematically test them.

And another field leaves a disturbing amount of space for attacks by third parties: value-added services such as benchmarking and other data-driven services. They are on the agenda today in the IT at Salesforce and many cloud providers but they are offered by only 40% of companies and not considered a growth area by the product sellers. The users of the machines, however, are opening up more and more for Big Data, where the attack fields for third parties can be found who push their way into the customer interface through smart analytics without their own technological base. If that's vaguely familiar, then you are right: the Internet companies have undermined many established industries in this way.

The study's authors strongly doubt whether the development in the Internet of Things will seem different for mechanical engineering, because the plant, machinery and equipment are considered more complex and, in relative terms, are more important than the physical assets in other industries. The first examples can already be observed: in this way, OnFarm, a Valley-Start Up, combines information on machinery, equipment, weather, soil, seeds, pesticides and others for a compelling value proposition for American farmers: "The Only Farm Decision System You'll Need. "

Thomas Sindemann: "If these Californian "data nerds" succeed in providing farmers with valuable information steadily as a service and thus provide measurable contributions for better yields, they'll be edging themselves between the farm and equipment industry. What prevents these information specialists, in the medium term, from also recommending to farmers what equipment they need to optimally manage the farm – cheaper and more efficiently than with today's premium products?"

## **Conclusion: More courage to implement innovative service concepts!**

DZG and Infront agree on their conclusion based on the study: The mechanical and plant engineering sector in Germany and Switzerland is fundamentally well positioned in product-related services, even though there is still a recognizable need for a nationwide roll-out of remote service concepts and multi-vendor models. In addition, many service organizations are still lagging behind when it comes to standardization and automation.

Unfortunately, across the industry, there is still a lack of innovative integrated service concepts, whether they are data-based value-added services or integrated technology-as-a-service offerings.

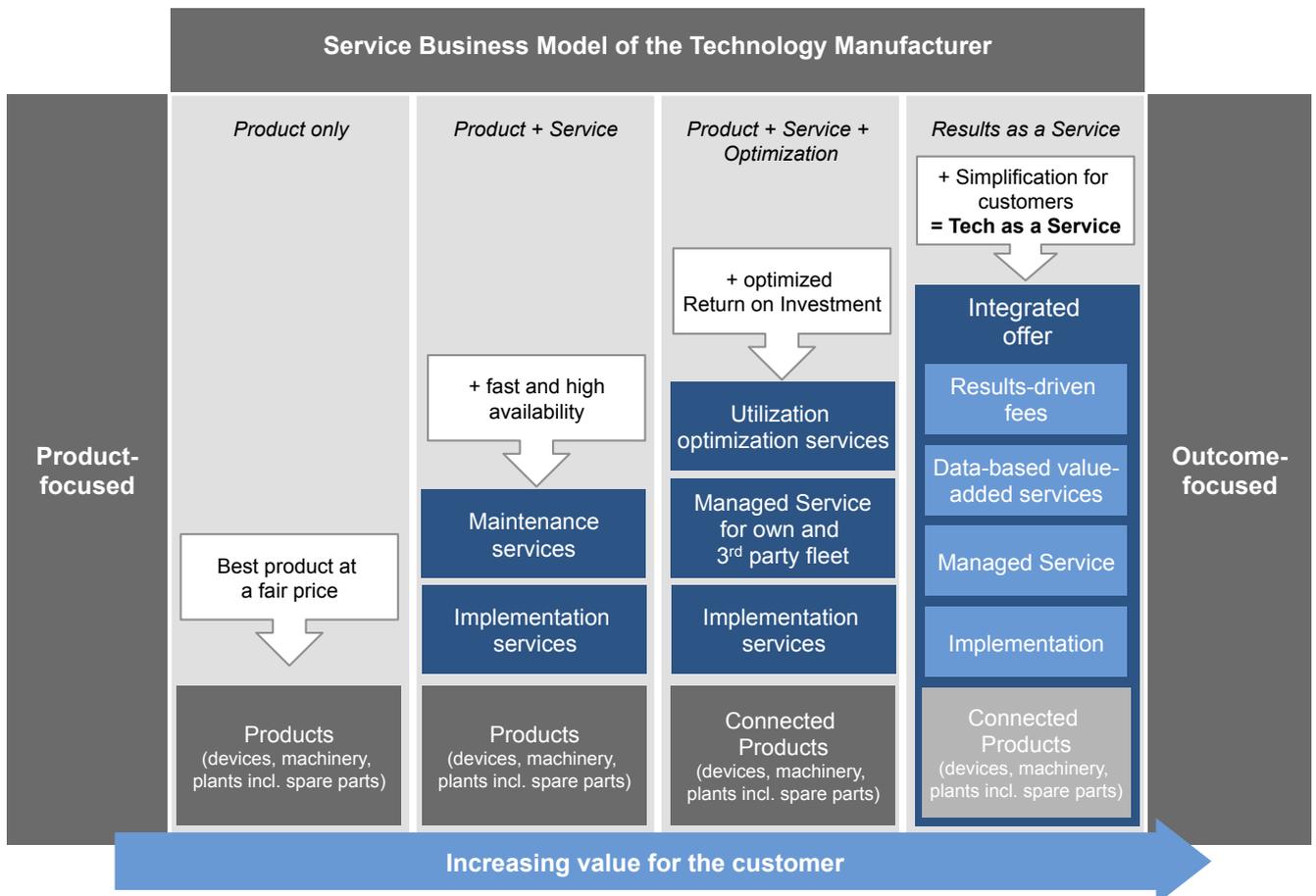


Figure 3: Stages of service business models in mechanical and plant engineering

Source: Infront Consulting (based on TSIA 2014)

Recommendation: More courage to implement innovative, scalable service offerings that provide significant improvements to the customer interface and deliver effective competitive benefits to the complete business model of the manufacturer. In addition to this, a service strategy that leads away even more from the service as craftsman towards the industrialized, technologically and procedurally optimal supported service in global supply networks.

The times where service could be regarded as a necessary evil of product sales are certainly over. Modern service business models provide significant and stable growth and profitability potential for those who are determined to rethink service.

Infront offers concrete support, e.g. with three highly concentrated consultancy approaches:

- 1. Service Strategy:** Improvement of service-oriented strategies and business models supported by Infront's "Five Apocalyptic Horsemen" methodology
- 2. Service Innovation:** Development of new Technology-as-a-Service concepts based on Design Thinking and Service Productization workshops
- 3. Service Profitability:** Optimization of existing service businesses with Infront's well-proven "Hidden Treasures" approach

*About the DZG – Deutsches Zentrum für Geschäftsaufbau/ German Center for Business Development:*

The German Center for Business Development (DZG) creates a new form of partnership between business, business transformers and service partners – with the aim of testing business ideas and concepts within a short time at low cost in the real market environment that result in potentially strong themes for the company, leading them to sustainable success. DZG was founded in 2015 and is headquartered in Hamburg.

Steffen Böning is the initiator of DZG. One of his posts was previously as CEO and executive within the Bertelsmann Group and at the E-Plus Group.

Find out more at: <http://www.deutschland-setzt-um.de>

*About Infront Consulting & Management:*

Infront was founded in 2004 and is an owner-operated company for consulting and management in the areas of strategy, business development and business performance. Five partners and 20 experienced consultants and highly qualified specialists work enthusiastically to develop and implement successful strategies for well-known customers in the fields of telecommunications, information technology and IT services, media, healthcare and industrial services. Infront is involved as a business transformer at DZG.

Thomas Sindemann is a founding partner of Infront Consulting and Management. He advises technology companies both nationally and internationally with corporate and market strategic issues. An important focus is on sustainable service business models in the context of the Internet of Things.

Find out more at: <http://www.infront-consulting.com/en/>