

Strategic Services Marketing
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Servitization and Product-Service Systems

Hello everyone. In this session let's try to understand the concept of servitization and product service systems. What is servitization? Servitization refers to the strategic shift by companies from traditional product centric business models towards service centric models. In a servitized business model, companies transition from selling products as a standalone entities to offering integrated solutions that combine products and services to meet the evolving needs and preferences of customers. Let's understand what is servitization and how it is a revolutionized business model right now through this particular video. Have a look at this video.

In the world of business there's a constant Buzz about expanding service offerings in their portfolio and boosting sales through service offerings today we'll delve deep into why companies are shifting their focus and how they're accomplishing this change in their business model we'll provide a few examples at the end so please stick around until the end this shift towards a more service oriented business model is known as servitization. Servitization involves offering more comprehensive Market packages often referred to as bundles these bundles combine a physical product with a service to provide added value compared to what was previously offered the shift primarily occurs because Services tend to yield more profitable margins compared to physical products and there's a growing customer expectation to find comprehensive of solutions from a single Source.

Now that you understand what servitization means and why it is so lucrative, you might think we can end the video right here, but unfortunately it is not that simple. As is often the case in life, things are more complex than they first appear. The combination of a physical product and a service can be categorized within a product service system taking into account the importance of the different components of the bundle. Where you're offering falls on the graph depends on your core value proposition.

If it's more to the left, it means your customers primarily buy your bundle because of the excellence of your physical product and the additional service is not the main selling point. Conversely, if you're offering leans toward the right side of the graph, the service takes center stage while the physical product acts as a mere tool to enable customers to use the service you provide. To make this clearer, let's examine examples at both ends of the spectrum. Let us take the company Stole for example. Stole has been and is still the market leader when it comes to knitting machines.

However, their machine sales have been on a decline over the past few years due to reduced global demand. Their machines are simply too good and run for decades. To counter the decrease in machine sales, Stole has begun introducing service packages that can be bought together with the machine or separate for customers that already have a machine. These include regular machine maintenance because even though the machines are exceptionally reliable, they still require routine inspections and maintenance. Additionally, they offer packages like a flat rate for on-demand remote help desk support.

For instance, if a customer in China encounters software issues with their machine, they can call Stole for immediate assistance, minimizing production downtime. Now, let's revisit the graphic we discussed earlier. It's evident that Stole's high-end machines remain their core value proposition. However, they've smartly integrated service packages into their portfolio. Consequently, we would position them on the left side of the continuum.

We call this servitization model product-oriented. Let's explore another example. Whoop is a wearable fitness tracker. Compared to Stole, Whoop has an entirely different business model and philosophy. The offer consists of a physical component, the actual wearable, and an app that will display the data that the wearable has gathered as well as offer training programs and so on.

The catch is you do not pay anything at all for the wearable itself. You get a 30 days free trial where you can use all the features the Whoop app offers and use it during your daily activities and sports. If you like it, you can keep the wearable and then sign up for a monthly subscription model. If you no longer want to use the Whoop app, you can then just send the wearable back for free. Let us revisit the graphic once again.

We call this type user-oriented because you only pay for the service that is offered without

any initial cost and only as long as you are actually using the service. Can you see the difference to our other example where the physical product was much more important? The physical product now is merely a tool that allows you to use their in-app service. If you've been following along, you've probably noticed that we haven't delved into the far right end of the spectrum. Let's explore the concept of a results-oriented service where you pay solely for the outcome. Imagine this scenario.

Porsche Cars North America PCNA has launched a short-term rental and peer-to-peer car sharing service called DriveOne. The program offers customers the ability to borrow various Porsche vehicles for different lengths of time from just a couple of hours or up to a month or more if you are going on vacation or a business trip. The Drive program is run by Porsche's partner Clutch Technologies and offers White Glove Concierge delivery service. Pretty cool, right? Let us revisit the graphic one last time. Porsche's new on-demand rental car program is a result-orientated service.

You no longer pay for a car, you now pay for on-demand mobility which includes the delivery of the car. You pay for the result and nothing else. I hope this has helped you understand what servitization means in the world of business. At its core, servitization involves providing value-added services that complement or enhance the core product offering, thereby creating more holistic and comprehensive solutions for customers. These services may include maintenance, repairs, upgrades, training, consulting, and other forms of support that extend beyond the initial sale of the product.

Servitization reflect a broader trend towards outcome-based or even performance-based business models where companies focus on delivering specific results or outcomes for customers rather than simply selling products. By embracing servitization, companies or service providers can strengthen customer relationships. They can drive recurring revenue from them and differentiate themselves in the market and capture new sources of value in an increasingly competitive landscape. Let's understand how companies are shifting from traditional product-centric models to service-centric models. So there are multiple reasons or processes or ways to do this.

First because of customer expectations. Customers are increasingly seeking value-added services and personalize experiences alongside products. Customers nowadays are prioritizing outcomes and solutions over ownership, leading companies to pivot towards service-centric models that deliver comprehensive solutions and ongoing support.

Secondly because of competitive pressure. In saturated markets with intense competition, product differentiation alone may not be sufficient to sustain growth and profitability.

Service-centric models offer companies a way to differentiate themselves by providing unique value propositions, enhancing customer experiences and building long-term relationships. Third reason because of technological advancements. Advances in technology, particularly digitalization and connectivity enabled by the Internet of Things have made it easier for companies to offer and deliver services alongside physical products. IoT enabled devices allow for remote monitoring, predictive maintenance and real-time data analytics, enabling service providers to offer proactive and predictive services that enhance product performance and also customer satisfaction. Another reason is revenue diversification objective.

Service-centric models offer companies the opportunity to diversify their revenue streams beyond one-time product sales. By offering subscription-based services, usage-based pricing models or outcome-based contracts, companies can generate recurring revenue and build more predictable revenue streams over time. Another way or another reason is customer relationship management. Service-centric models foster deeper and more enduring relationships with customers. By providing ongoing services and support, companies can establish trust, loyalty and brand advocacy, leading to increased customer lifetime value and higher retention rates.

Another reason is with respect to growing concerns for sustainability and circular economy. Service-centric models align with sustainability goals and the principles of the circular economy by promoting resources efficiency, product longevity and waste reduction. By offering services such as product leasing, sharing or remanufacturing, companies can minimize environmental impact and create value from existing assets. Now let's understand some benefits of servitization. The first benefit here is enhanced customer relationships and loyalty.

Servitization fosters deeper and more meaningful relationships with customers by providing ongoing services and support throughout the product life cycle. By offering comprehensive solutions that address customers' evolving needs and challenges, companies can build trust, loyalty and brand advocacy. Customers nowadays appreciate the added value and personalized attention that comes with servitized offering, leading to higher satisfaction levels and increased likelihood of repeat purchases. Second benefit is with respect to sustainable revenue streams and recurring revenue opportunities.

Servitization creates sustainable revenue streams by shifting from one-time product sales to ongoing service contracts or subscriptions.

Instead of relying solely on upfront sales revenue, companies can generate predictable and recurring revenue streams over time. Subscription-based models, usage-based pricing and outcome-based contracts offer opportunities for continuous monetization and long-term customer engagement, providing stability and resilience in fluctuating market conditions. Another benefit is with respect to increased competitiveness and market differentiation. Servitization enables companies to differentiate themselves in a competitive market by offering unique value propositions and comprehensive solutions that go beyond traditional product offerings. By bundling products with value-added services, companies can differentiate themselves based on the overall customer experience, rather than just product features or price.

This differentiation enhances brand perception, strengthens market position and reduces the risk of commoditization, making it harder for competitors to replicate or undercut. Another benefit is improved resource utilization and operational efficiency. Servitization drives operational efficiency and resource utilization by optimizing asset utilization, streamlining the processes and reducing waste. By offering services such as predictive maintenance, remote monitoring and asset management, companies can maximize the lifespan and performance of their products. They can minimize the downtimes as well and optimize resource allocations.

This results in cost savings, improved productivity and better use of existing resources, ultimately leading to higher profitability and competitiveness. Now let's understand the second concept, that is product service system or PSS. Product service systems represent a business model innovation, where instead of selling products as standalone items, companies offer integrated solutions that combine both products and services to fulfill customer needs. In a PSS or product service systems, this focus is not solely on the sale of physical products, but rather on delivering value through a combination of tangible goods, intangible services and supporting infrastructure as well. Let's discuss some characteristics of product service systems or PSS.

There are five characteristics. First one here is integration of product and services. The first characteristic here is integration of products and services. PSS integrates physical products with complementary services to provide customers with comprehensive solutions that address their specific needs and preferences. Second characteristic is value-centric

approach. PSS emphasizes delivering value to customers beyond the product itself, focusing on outcomes, experiences and benefits rather than just features or functionalities.

Third characteristic, outcome-oriented focus. PSS is often outcome-oriented, where customers pay for the results or benefits achieved rather than the ownership or usage of the product. This shifts the emphasis from ownership to access or usage or performance. Fourth characteristic, lifecycle perspective. PSS considers the entire lifecycle products and services from design and production to use maintenance and disposal.

It emphasizes sustainability, resource efficiency and circular economy principles to minimize environmental impact and optimize resource utilization. And final characteristic here is customization and flexibility. PSS offers flexibility and customization options to meet diverse customer needs and preferences. Customers can choose from a range of product configurations, service packages and pricing models tailored to their own specific requirements. Product service systems represent a shift towards more holistic and customer-centric business models that offer integrated solutions, deliver value-added services and promote sustainability and efficiency throughout the product lifecycle.

By adopting PSS approaches, companies can enhance customer satisfaction, they can drive innovation and create competitive advantages in today's dynamic and service-oriented markets. Now, let's understand what are the components of this product service system. So, as it treated earlier, there are three components, product, service and information. Product is nothing but physical product or asset that is being under consideration. Service deals with value-added services bundled with that particular product and then comes information the outermost layer that denotes data and insights generated by the product service system.

Now, let's understand what are the different PSS types available in this context. There are three types of PSS, first result-oriented, use-oriented and product-oriented. The first is result-oriented PSS that means, where focus is on delivering specific outcomes or results for customers. We can have an example here is from Rolls-Royce. Rolls-Royce has their Total Care Service Program.

Rolls-Royce offers Total Care Service Agreements for its aircraft engines, where customers pay for the engine's performance outcomes rather than just the engine itself. Total Care guarantees engine availability, reliability and performance, covering maintenance, repairs and spare parts as a part of comprehensive service package. Care lines benefit from predictable operating cost, reduce downtime and optimize engine

performance, while Rolls-Royce maintains a long-term relationship with customers and ensures the ongoing reliability and efficiency of its engines. Second type of PSS is user-oriented PSS, wherein the focus is on providing access to products or services rather than their ownership. The example that we can have here is Zipcar's Car Sharing Services.

Zipcar provides a car sharing service, where customers pay for access to vehicles on a usage basis, rather than owning or leasing a car outright. Customers can reserve vehicles by the hour or day through Zipcar's mobile application, access them using a smart card and return them to designated parking spots. Zipcar handles maintenance, insurance, fuel cost, offering customers convenience, flexibility and cost savings, compared to traditional car ownership. By sharing vehicles, customers reduce their environmental footprint and contribute to sustainable transportation solutions. Third type of PSS here is product-oriented PSS, wherein the focus is on enhancing the functionality or performance of the product through added services.

We can have an example of Philips Lighting as a Service, LAAS, LAAS as a perfect example of product-oriented PSS. Philips offers Lightning as a Service, that is LAAS, where customers pay for access to energy-efficient LED lighting solutions, rather than purchasing the lighting fixtures outright. Philips provides the lighting fixtures, installations, maintenance and ongoing support as a part of a subscription-based service agreement. Customer benefit from reduced energy consumption, lower operating cost and improved lighting quality, without the upfront investment or hassle of managing lighting infrastructure. Whereas Philips retains ownership of the fixtures and ensures their optimal performance throughout the service duration.

These examples illustrate how different types of PSS or product-service systems offer integrated solutions that combine products and services to meet customer needs and preferences, while delivering value-added benefits such as outcome assurance, usage flexibility and product performance optimization. With this now let us look at some challenges or what are the challenges and consideration one should look for while implementing this Servitization and PSS business models. The first challenge as you can see here is Cultural and Organizational Change. Transitioning from a traditional product-centric model to a service-centric business model requires significant cultural and organizational change. Employees may resist or struggle to adapt to new roles, processes and mindsets, focused on delivering services and creating value beyond the product.

So, what is the consideration or solution here? Leadership support, employee training and effective change management are essential for overcoming this type of challenge, that

is due to cultural barriers or fostering a service-oriented culture. Companies should communicate the vision, benefits and expectations of PSS adaptation, empowering employees to embrace new roles and responsibilities and provide the necessary resources and support for skill development and collaboration. Another significant challenge here is with respect to integration of products and services. Integrating product and services seamlessly to create cohesive and value-added solution can be complex, especially if product and services are managed by separate teams or departments within different priorities and processes. So, what is the consideration or solution here? Cross-functional collaboration, alignment between different departments and integrations are critical for ensuring a unified and consistent customer experience across all touchpoints.

Companies should break down silos, foster collaboration between product and service teams and design end-to-end processes that span the entire customer journey. Their roles, responsibilities and communication channels are essential for ensuring alignment and coordination between product development, service delivery and customer support functions. Another challenge here is with respect to data privacy and security. Collecting, storing and managing customer data in PSS environment raises concerns about data privacy, security and compliance with regulatory requirements such as GDPR, General Data Protection Agreement or regulation that is happen in Europe. What is the consideration or solution for this type of challenge? Companies must prioritize data privacy and security by implementing robust policies, procedures and technologies to protect customer data from unauthorized access, breaches and even misuse.

This includes encryption-based controls, data anonymization and regular audits to ensure compliance with data protection regulations. Transparency, consent and trust are essential for building and maintaining customer confidence in the handling of their personal information. Another challenge here is pricing and monetization strategies. How to go about this? So, developing pricing and monetization strategies for PSS offerings can be challenging due to the complexity and variability of service components, customer preferences and competitive dynamics. So, what is the solution here? Companies should adopt flexible pricing models that align with customer value and usage patterns while ensuring profitability and sustainability.

This may include subscription-based pricing, pay-per-use models, outcome-based pricing or even tiered pricing structures tailored to different customer segments and usage scenarios. Experimentation, customer feedback and market analysis are essential for refining pricing strategies and optimizing monetization opportunities over time. Addressing these implementation challenges and considerations is crucial for successfully transitioning to and maximizing the benefits of product-service system, that is PSS. By

overcoming cultural barriers, integrating product and services effectively, prioritizing data privacy and security and developing innovative pricing strategies, companies can unlock new opportunities for growth, differentiation and value creation in today's service-driven economy. So, in this session we try to understand the concept of servitization and product-service system that is PSS and how they are beneficial for the firm or service provider. Thank you.