Servitization mapping

## A practical tool to explore strategic directions in a servitization shift

Part 2/3: Servitization mapping tool

As clients become more demanding, price erosion continues and competition intensifies, manufacturing companies are forced to change their business model to create higher and more solid sourced revenue streams and profits.

As discussed in Part 1 of this whitepaper, servitization is a promising strategy to effectively redesign manufacturers' business models towards more solid revenue streams and profits[1]. Servitization comes with a great number of challenges, of which setting out the right servitization strategy is the biggest. A clearly-defined servitization strategy is proven to be essential for manufacturers to profit from their servitization efforts and investments[2]. In this second whitepaper, we introduce servitization mapping; a tool for manufacturers in a business to business environment that helps to create an overview of existing service offerings in the company and market. Through servitization mapping companies can explore the solution space in which new service offerings can be developed.

Key takeaways

- Servitization mapping is a practical canvas for business to business manufacturers that systematically map current product and service offerings of the company, clients and competitors.

- It is extremely important to map existing offerings into the different levels of service sophistication to determine which new service offering could fit the current rate of adoption.

- Servitization mapping helps to create a shared understanding in an organization and explores successful strategic directions in a servitization process.
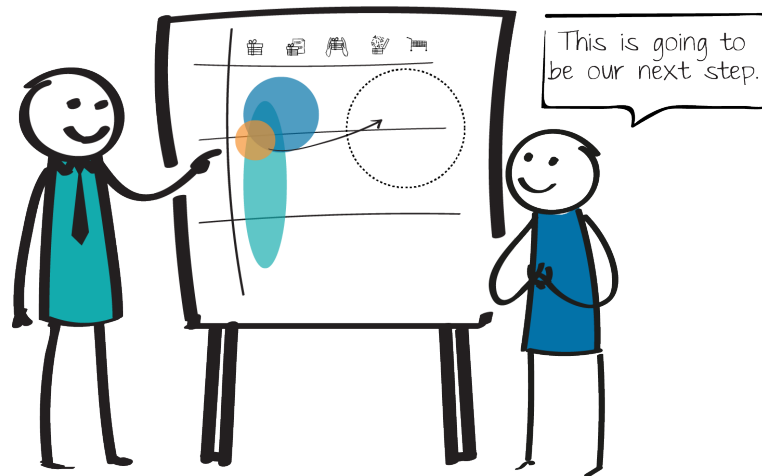
This is going to be our next step.

Servitization mapping helps organizations to review, explore and align

Servitization mapping is a process that helps organizations to analyze the current situation and serves as a starting point to explore possible servitization strategies. The servitization canvas allows companies to create an overview of their current product and service portfolio per client segment. Additional services that are used by clients to support their core-processes and the offerings of competitors and partners are captured to spot potential new directions. All offerings in the canvas are categorized into different levels of service sophistication (ranging from offering a pure product to a pure service). The canvas exposes a solution space in which the potential of different service-offerings can be explored. The overview that is created by the canvas helps to establish a shared language and understanding within an organization. This allows businesses to align and agree on strategic directions and supports them in assessing which efforts and resources are needed to prepare the company and the market for new service offering [3,4].

Servitization mapping prevents common pitfalls of servitization

The path towards a successful servization strategy contains many challenges and potential pitfalls. Servitization mapping protects organizations from the following pitfalls:

Ineffectively copying existing servitization examples

Servitization is in some sectors already well-established. Manufacturers in sectors where servitization is emerging tend to copy great examples of product-service combinations that frontrunners in servitization are offering. However, these successful examples are designed within a specific and unique context in which the service provider, partners and customers play a key role. Copying service offerings is therefore considered to be ineffective. To create a successful servitization strategy, it is key to determine the current status and attitude of involved customers, organizations and partners in the companies' own unique context [4].

"We know companies that have contracts with their clients in which they guarantee that they operate 300 days a year. We do not have that yet, but we do want it as we see that it is successful"
- New Service Provider in Shipbuilding Industry

Struggling with unfit tools

There are numerous tools available to help companies develop new services. However, there are no specific tools that help to understand which new service ideas represent the right step in a servitization process. Companies often do not know how to evaluate their current service portfolio and how to extend it. Servitization mapping supports companies to explore suitable servitization strategies. It helps to organizing client-, market- and business data and indicates the level of servitization that fits both the customer and the company.

"No, we don't really have tools for this process… In the past we worked with "Value house proposition" and the "business model canvas"… but these tools do not work…"
- Client of servitized company in Lighting Industry

Ending up in a 'service paradox'

Many manufacturing firms that move towards service provision struggle to define successful service portfolios in new market segments, communicate clear service descriptions and allocate adequate support within their organization [5]. Large investments into new service offerings and the profound changes in the organization often fail to achieve the financial benefits organizations would expect. Companies that are situated in this "service paradox" might grow in terms of sales revenues, but often generate lower profits as a percentage of sales [6]. These companies are stuck in their corporate structure and product focused mindset which hamper the successful delivery of services [6,7].

"This shift does not correspond to the mindset of the employees. They think in products …. they certainly didn't learn about the end customer or a customer journey let alone dealing with a "vision of urbanization and future mobility" and how a city center will ultimately be shaped."
- New Service Provider in Construction Industry

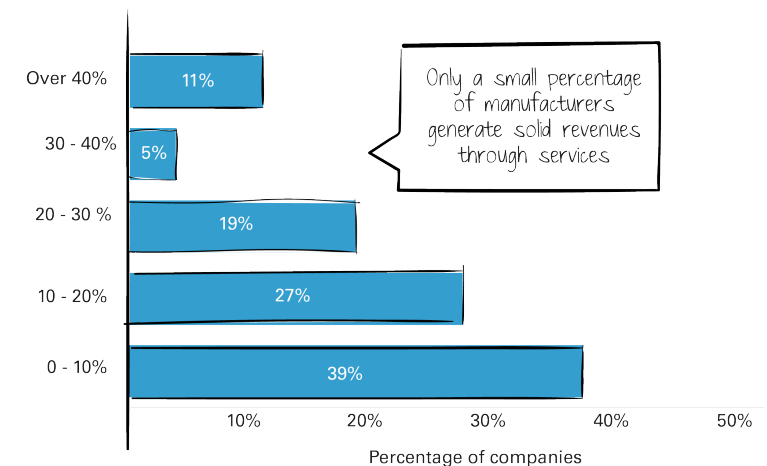### Percentage of service revenue on overall revenue

Figure 1.

One of the many pitfalls in servitization is that manufacturing companies struggle to achieve a higher percentage of service revenue on overall revenues [2].

Engaging stakeholders in setting up the servitization strategy

The success of a servitization strategy relies on a profound understanding of a company's current and envisioned value proposition and what this means for all stakeholders involved. For example, not only should the client be ready to relinquish a certain level of control of parts of their operations, but the organization of the servitization adopting company should also have the right experience, set-up and culture.

"You are used to do everything yourself… For example, at home. You have a living room and normally you would decorate it yourself. You would buy the sofa and the TV but in the new situation, others would do this for you. So essentially you do not know how the living room will turn out."
- Client New Service Provider in Lighting Industry

The new service propositions will redefine the relationships between the company, its client and its partners [4]. In order to be successful, all stakeholders either need to be already adjusted to this new type of relationship or they need to be carefully prepared for this change. It is therefore important to assess the level of adoption of three types of stakeholders before a new service proposition is defined, namely (1) the company, (2) its clients, (3) and the partners in the company's ecosystem.

1. Company: The organizational structure and culture of a product-service company are different from those of a traditional manufacturing company [7, 8, 9,10]. The company should either be ready for the new services offerings or should undertake steps to prepare.

2. Client: The role of a client changes towards that of a co-creator within a servitization shift [11]. Being a co-creator, clients partly carry the responsibility for the value that is to be created. They need to be willing to work in a co-creative process and share internal information. If clients are already familiar with similar services, less effort (through sales or pilot projects) is needed to guide them through this role shift.

3. Ecosystem: The need for shift in mindset also applies to the (consortium) partners or other stakeholders involved. It is important that everybody understands that value for clients is created by use and that the focus should be on capabilities rather than units of output [12].

The servitization canvas

The servitization mapping canvas is used to map existing product-service-offerings and reveals a solution space in which new service offerings can be created. It is a graphical template describing three segments of stakeholders (y-axis) and five levels of service sophistication (x-axis). The different stakeholder segments help to systematically map current product and service offerings of the company, clients and competitors. All offerings are categorized into one of the five levels of service sophistication.
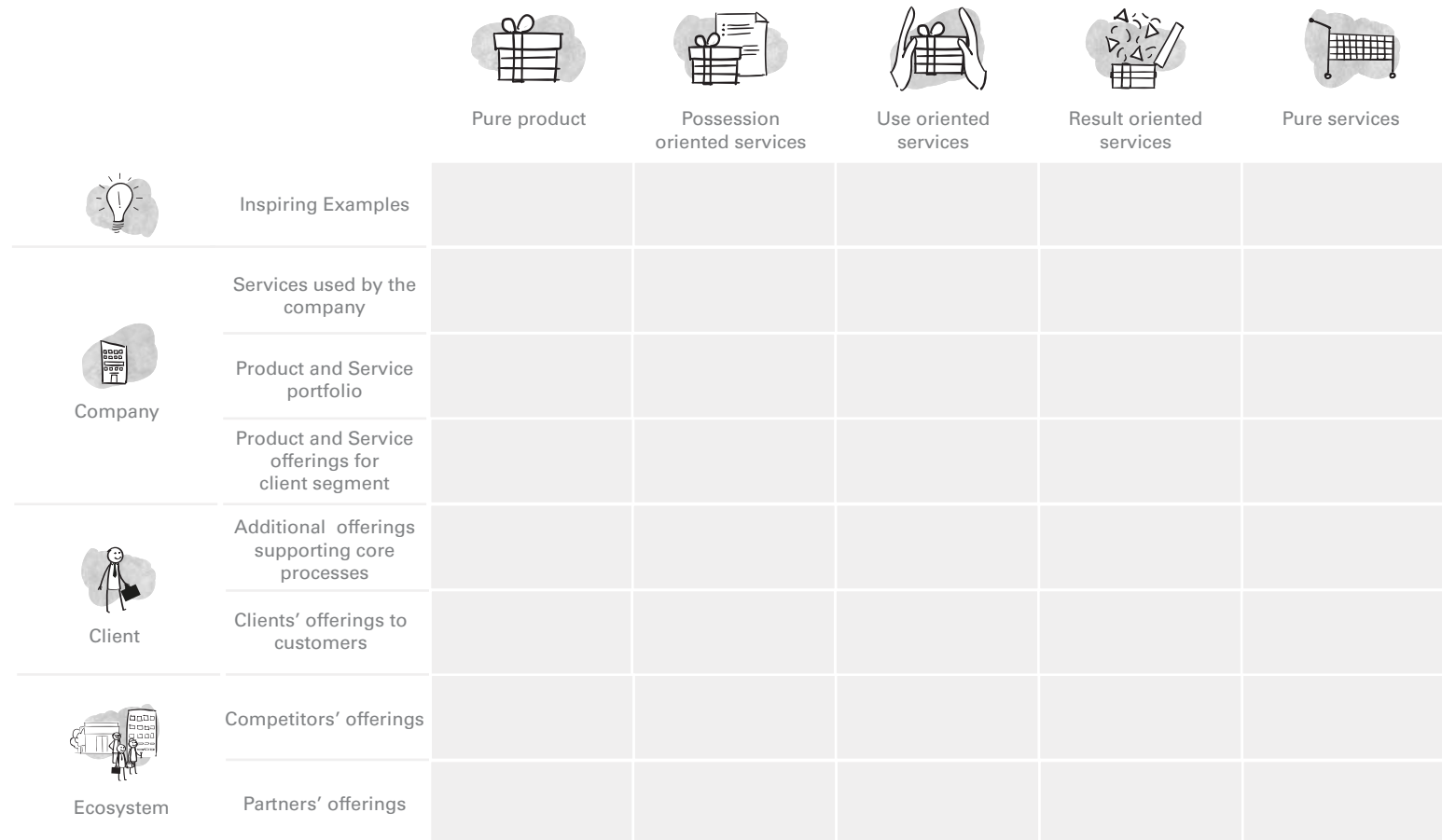
		Pure product	Possession oriented services	Use oriented services	Result oriented services	Pure services
Inspiring Examples						
Company	Services used by the company					
	Product and Service portfolio					
	Product and Service offerings for client segment					
Client	Additional offerings supporting core processes					
	Clients' offerings to customers					
Ecosystem	Competitors' offerings					
	Partners' offerings					

Figure 2.

The servitization canvas. Printable version at the end of this article.

The level of service sophistication

Existing product and service offerings in the market have a different level of service sophistication. To determine the right level, it is important to evaluate in what way the product or service provides value to the core processes of the client.
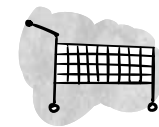
Pure product	Possession oriented services	Use oriented services	Result oriented services	Pure services
Pure Product offerings provide value through the product itself (both physical & digital). There is no contact or co-creation with customers needed to deliver value.	**Possession Oriented Services** deliver value through supporting a product (e.g., making sure it lasts longer).	**Use Oriented Services** deliver value through supporting the use of a product (e.g. helping the clients use the product to its full potential).	**Result Orientated Services** deliver value by delivering a result with products (e.g. helping the client to use the product to its full potential).	**Pure Services** deliver value without products. Clients pay for the expertise of a service provider (no products)
Clients pay for a product. *Example: A company purchases a number of lightbulbs and luminaires for its corporate headquarters from a lightbulb & luminaires manufacturer.*	Clients pay for a product that lasts as long as possible. *Example: The client purchases a warranty and a repair service with the lightbulbs and luminaires from the manufacturer.*	Clients pay for the (best) use of a product. *Example: The client no longer purchases the lightbulbs and luminaires but pays the manufacturer per hour/day to use them.*	Clients pay for the result of a product or a combination of products. *Example: The client pays the manufacturer for a well-lit headquarter instead of purchasing the lightbulbs and luminaires.*	Clients pay for the result of a product or a combination of products. *Example: The manufacturer advises the client on how to lit their headquarters.*

Examples are based on episode "Einde van bezit - VPRO Tegenlicht" (2015)

The stakeholder segments

The different stakeholder segments are used to determine which products and services are offered and used by the company, client and competitors. By plotting the product and service offerings per stakeholder, the rate of adoption per segment can be determined and compared.

Inspiring examples

Successful service offerings from servitization frontrunners can serve as inspiration. Examples either from the firm's sector or an entirely different one can be plotted on the canvas in the **inspirational examples** row.

Company

To determine the current position of the company all existing offerings, both product and services are mapped in **product and service portfolio.** For every offering the corresponding level of service sophistication is to be determined. Offerings targeted on selected client segments are moved down to the **product and service offerings for client segment** row. Additionally, the row of **services used by the company** is used to plot products and services the company makes use of to complete core-processes. By including the companies own processes it is possible for employees to understand the organizational changes and implementation that follows from using offerings that are more service orientated. This way, employees are triggered to change their perspective and include the view of the client.

Client

The services that clients use from other providers to support their processes are plotted in the additional **offerings supporting the core processes** section. This section can include services delivered by competitors and partners. These may also include services that are unrelated to the company. To determine the status and current rate of adoption of the client segment, we also identify the products and services the clients themselves deliver to their customers in the **clients offerings to customer's** row.

Ecosystem

The offerings of **competitors and partners** is plotted in the final segment. Some of the client's additional supporting offerings will be delivered by competitors and partners and should be moved to this segment. It is important to not overlook offers that support totally different purposes than the company is currently focused on as these can reflect the client's rate of adoption of service offerings.

The process of servitization mapping

To create the canvas within your own organization we introduce a simplified and generic servitization mapping process. It is a starting point for any company that considers to adopt a servitization strategy and consists of three phases.

1. Prepare

As a first step, members of the team responsible for the servitization shift, are asked to prepare for a workshop by acquiring information about the current offerings of the company, offerings used and provided by clients and offerings of competitors.

2. Analyze

A large servitization canvas is filled in per client segment in a workshop. Product and service offerings from the company, client and competitors are plotted on the canvas in the right category on the product-service axis. Additionally, services used by the company itself are mapped on the canvas as well to stimulate a broader perspective.

3. Explore

After filling in the canvas it is possible to determine the current rate of adoption of servitization of the company, client and ecosystem. The current dominant position of the company and client can reveal in which category there is room to grow. By taking into account trends and the company's capabilities and vision it is possible to extrapolate towards the solution space in the (near) future. During a brainstorm session, new product-service solutions can be created that incorporate the companies' knowledge and skills to better support clients in their (future) processes. The ideas within the current and future solution space form the basis for the development of the servitization strategy.

Conclusion

Servitization mapping uses a practical canvas to systematically map current product and service offerings of the company, clients and competitors. By plotting these offerings into different levels of service sophistication it is possible to determine the current rate of adoption of servitization of the company, client and ecosystem. The current position of offerings will reveal in which category of service sophistication there is room to expand the company's offerings.

Servitization mapping supports organizations to establish a shared understanding about the possible strategic directions in a servitization process. The tool helps to determine which efforts and resources are necessary to prepare the company and market for new service offerings. In the next, and final, part of this whitepaper, we will provide guidelines on how to successfully achieve a shift in mindset, from product to customer focus, that is essential in the servitization process.

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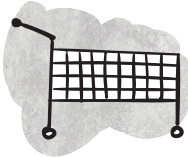
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Servitization Canvas

This canvas is a tool to expose the solution space for new potential service offerings. Go to www.liveworkinsight.com to learn how to use it in your servitization process.

	Pure product	Possession oriented services	Use oriented services	Result oriented services	Pure services
Inspiring Examples					
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