



*Philips Lighting successfully developed a service mindset. By understanding the needs and processes of their clients, they recognised that their capabilities could be used for a new purpose, solving a problem they'd been unable to address before.*

# A Servitization Mind-set

Five guidelines to stimulate a shift from a product to service mind-set

Whitepaper

Part 3/3: Servitization mind-set

**Manufacturers in business to business environments have started to realise that clients are less interested in products and their features, rather preferring service solutions that add value to their processes. To successfully deliver those service solutions, manufacturers require a deep understanding of their clients and their particular contexts.**

Manufacturers need to learn how to stimulate the right culture to support co-creative development and delivery of service solutions. In this third and final white paper about servitization, we describe the necessary culture change and offer five guidelines for companies that want to shift towards a culture that enables Servitization.

## **Challenges of creating a service mindset**

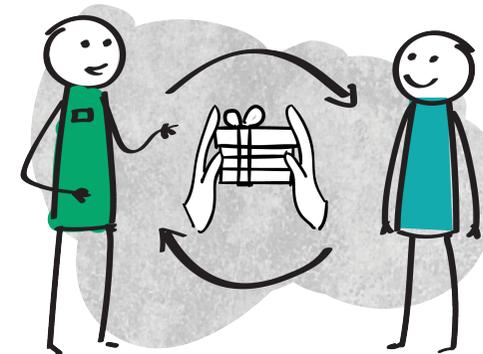
Often manufacturers fail to translate the new service strategy into real outputs<sup>1</sup>. These organisations are struggling to develop the ability to design and deliver service offerings that match their clients' needs. The reality is that a product and feature focus hinders the ability to become a successful service provider.<sup>2,3</sup> Employees need to be empowered to fulfil their new role in the co-creating process of development and delivery of service solutions. Here we provide five guidelines that help to stimulate a new mindset across the organisation.

*"... Our organisation is really focused on the product, we keep trying to make our people start thinking about solutions... that blocks us... We have to explain that it's not just the performance requirements, but also taking our clients' needs and the needs of their clients into account. You have to take them through that shift, it's an entire mind-shift for them."*

- New service provider in the construction industry

## **Key takeaways**

- A service mind-set requires organisations to understand their clients' real needs, and customise the service to fit specific goals, contexts or processes.
- The knowledge, experience and skills of the service provider, their clients and external partners should be channelled into creating optimal value for clients.
- To increase adoption levels of new service offerings the service provider should actively engage clients to take the role of co-creators throughout the entire development process.



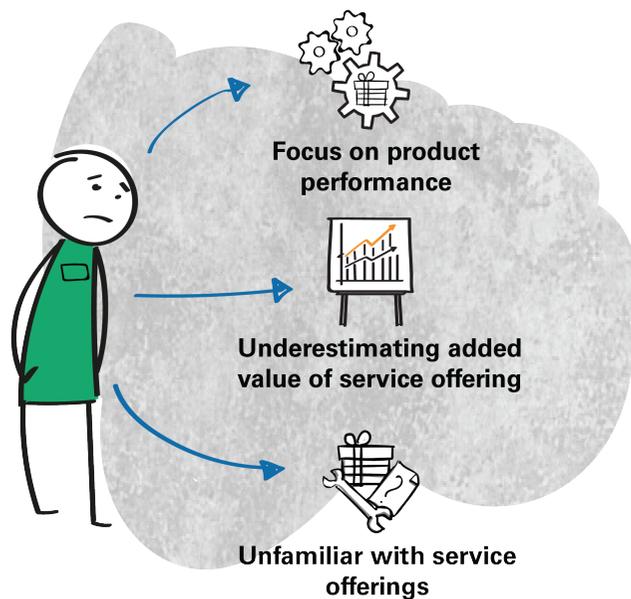
**Empower employees to co-create development and delivery of service solutions**

## From a product to a service mind-set

For a servitization strategy to succeed, it is important to understand that the value for the client lies in the efficiency and effectiveness of the offered solution rather than the product's features. The product is merely a means to deliver the solution for the client<sup>4</sup>. Employees lacking a service mindset struggle to recognise the added value of a service solution and are unfamiliar with the overall concept. Employees prefer to sell clients a well-known, and thus less risky, value proposition. Without investing in mind-set shift, a servitization strategy can fail to return the expected results.<sup>1, 3, 5</sup>

*"Most colleagues think the service business unit only exists to justify the difference in price with competitors."*

- New service provider in the shipbuilding industry



A mind-set shift in an organisation can galvanise structural change in which the mission of the firm is transformed and some fundamental aspects of the corporate culture are altered, including the underlying basic shared values<sup>6</sup>. Whereas product manufacturers often focus on the performance and efficiency of the physical products, service organisations focus on the needs of clients. Service organisations are empathetic and flexible as this nourishes the relationship with the client and enables them to customize their offerings to suit each client's specific goals, situation or processes.

# 1. Shift focus from product performance to client satisfaction

By far the most important change in mind-set, is the shift from ensuring the proper functioning and performance of a product to pursuing positive impact on the client's results.<sup>3</sup> It is key for service providers to empathise with clients' problems, processes and goals.<sup>7</sup> Research and development efforts should extend beyond product improvements and focus on searching for holistic and grounded solutions that help clients overcome their problems.<sup>8</sup>

As example: tractor manufacturer John Deere realised that their clients wanted to do more than just cultivate soil quickly and efficiently. By supplying their clients with tractors equipped with technology that can assess the soil quality and determine the appropriate quantity of fertiliser for each stretch of soil, they were able to increase the effectiveness of the client's process.<sup>9</sup>

*"...So when you look at our current portfolio - mostly pure construction - that corresponds to the mindset of our employees. They think in terms of products. They were educated to do so. A civil engineer is not educated to think like the client - let alone, learning to incorporate the client's vision."*

- New service provider in the construction industry

*"We do workshops and ideation and remind ourselves of our target group: What kind of processes do they have? What solutions can we offer for these processes?"*

- New service provider in the horticulture industry



**Focus on client's specific goals, situation and processes**

*“What do farmers need? What are the conditions we need to create for plants to ensure they grow as well as possible, or as tasty as possible or whatever they want?”*

- New service provider in the horticulture industry



**Value is created with the result or goal of a product in use**

## 2. The value is in the use, not the features.

In order to support a client in their processes it is necessary to continuously ask the client about their problems to find out what value proposition they could benefit from.<sup>7</sup> Successful value propositions build on the principle of ‘value in use’. The value for a client is not the product itself but the goal or result that can be achieved with it. The value is created by the effectiveness of a certain offering in the client’s processes.<sup>10</sup> Therefore, value should no longer only be seen from the manufacturer’s perspective but rather include the perspective of the client their end-users.<sup>11</sup> Value depends on the client (their unique combination of knowledge, skills, network, values and experiences), their context (access to resources and market) and on how this client uses an offering in its context.<sup>8, 10</sup>

A good example of building on the principle of ‘value in use’ is the offering of Chauffagistes, a French heating specialist. They stopped selling air conditioners, heaters and other temperature regulating devices and started offering services that keep a floor space at an agreed temperature for an agreed price.<sup>12</sup> Not only do they offer solutions that create direct value for clients, they also facilitate, in the specific context of use, each of their clients by offering specific solutions for each unique floor space.

### 3. Not the assets, but the capabilities are key

Traditionally, manufacturers tried to differentiate themselves from each other by the products they offered. However, by combining these products with in-house knowledge and skills, manufacturers can create sustainable competitive advantage.<sup>8, 9, 12</sup> The advantages that can be created by utilising the organisation's knowledge and experience are already being recognised in maintenance and repair services. Knowledge and skills within an organisation should be employed in the entire service offering in order to create optimal value for the client.<sup>13</sup> The challenge is to find the unique and valuable link between the knowledge and skills of a service provider and the client's processes.

Example: Philips Lighting found an opportunity for a new service offering concerning the lighting of office buildings. They recognised that an intricately linked network of light sources throughout an office building could be optimised by intelligent technology to predict where and when people were in need of light and which workspaces were available.<sup>15</sup> This saved office managers the trouble of trying to manage unpredictable energy demands and also enabled employees to find available desk spaces or meeting rooms with ease. Philips recognised that their capabilities could be applied for a new purpose, solving a problem they'd never thought of addressing before.

*"I think a big part of our added value is our expertise. We have a group of consultants with an in-depth knowledge of horticulture. When they walk into a greenhouse they can immediately evaluate the situation and ask: Why do you let air in at 8 pm in the evening? I would do it just half an hour later then your plants will grow better. That knowledge is really valuable."*

- New service provider in the horticulture industry

## 4. Clients shift from passive recipients to active co-creators

As value is delivered through use, rather than during purchase, the success of a service solution will be partly dependent on the client. Therefore, the client's role changes from passive recipient of value to active co-creator. The role of the solution provider also changes from simply delivering a solution to a more facilitative role. The best way to facilitate co-creation is to let the client represent their own interests.<sup>8,10</sup> By combining the resources of the firm and client, there is greater potential of creating successful services.<sup>16</sup>

The level at which clients participate can vary. Some clients might only give input to integrating an existing solution into their own processes, while other clients might take more of a partner-role throughout the entire development.<sup>8</sup> Higher levels of involvement result in higher adoption rates of the service, since clients will be more inclined to use services they co-created.



*"The 'green thumb team' - a group of farmers - formed represented the client in the development process. These guys understood whether the product-service combination was doing well or could do a better job."*  
- Client of servitized company in the horticulture industry

*"If the customer has the feeling that they're one of the founding fathers of a development, they're much more likely to adopt the innovation in their business."* Client of servitized company in horticulture industry

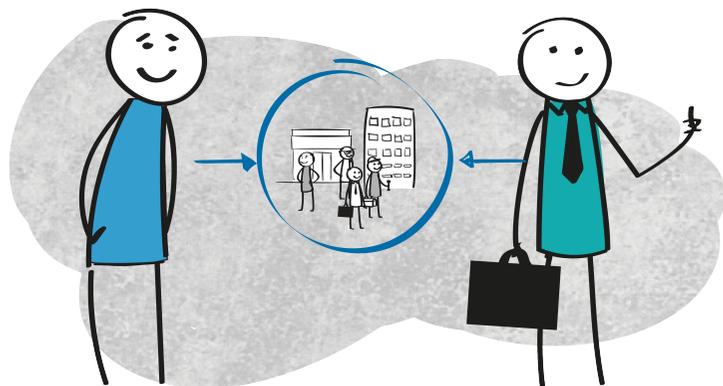
## 5. Start building knowledge networks

*“Everybody works to their strengths. So the construction company’s skills are in the execution of a project and the municipality has a thorough knowledge of the complexities of the city. If a company has to build a bridge in a meadow, they would succeed but if they had to build that exact same bridge in the city there would be a lot of different factors to consider. 90% of all projects have complications. This is not due to the complexity of the bridge, but to the urban environment. The ground is full of cables, and sewerage systems. Buses need to run on time etc. That’s where we come in.”*

- Client of servitized company in the construction industry

To create successful services, it is essential to collaborate with partners that have supplementary knowledge and skills.<sup>17</sup> It is less time consuming and risky for a firm to use external resources to fill the knowledge gaps. For example; the experiences of the client’s supporting network (e.g. suppliers, employees, non-profit organisations etc.) can generate rich insights into processes and result in better service solutions.<sup>3</sup> Firms should build relationships with all these different stakeholders, enabling them to be part of service development. Companies showing a service mind-set know how to relate to their clients as service partners and facilitate encounters with other potential partners for the ongoing goal of co-creating solutions.<sup>16</sup>

A good example that shows the power of knowledge networks is the municipality of Paris. The city integrated the resources of many stakeholders (eg. auto manufacturers, insurance companies, parking garages and recharging stations) to create Autolib. This is a car-share service that provides about 3000 electric cars in the city of Paris with the intention of reducing noise and air pollution.<sup>18</sup>



**Facilitate ongoing co-creation with client and partners**

## Implementing the service mind-set

To implement a service mind-set in your organisation it is important for employees to empathise with the client. There are three different ways to start growing and fostering a service mindset within your organisation.

### 1. Inspire employees to empathise with the client

In a workshop, employees are guided to change their focus from products to users. By zooming out on the context of use, employees get a new framework of thought which helps them to explore possible future services. By training and inspiring a small number of employees, 'change managers' can be created to advocate the new focus across departments. Moreover, internal pilot projects can be done to show the possible impact and value of a service mind-set.



**'Change managers' can advocate the new mind-set**

### 2. Build service capabilities

Not only should people be trained to systematically arrive at an understanding of each client and their processes, they should be trained to act upon this knowledge. This can be done by training people internally, introducing them to the new ways of working.

### 3. Focus internal processes and systems on the client

It is essential to reconsider the organisational structure of the company so that it can support the client seamlessly. The new processes should revolve around the client. The structure should be designed to stimulate continuous co-creation. For example, teams should be set up per client rather than per product group. Finally, insights should be shared and accessible across departments.

## **A servitization mind-set revolves around a client's specific goals, context or processes.**

Adopting a servitization strategy can result in higher revenues and more stable revenues, improved margins, increased customer retention and loyalty. In order to implement a servitization strategy successfully a shift in mind-set is necessary. A service mind-set focuses on the client, their real needs, and the best way to create value through use. A service mind-set stimulates and facilitates clients and partners to be involved in the co-development of service solutions. The knowledge and capabilities of the service provider, client and external partners should be combined to create relevant services. Internal organisational structures should be designed to stimulate continuous co-creation and should be aligned with the client's processes.

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