HOW TO NOT FAIL AT SERVITIZATION

Recurring revenue is enticing but brand engagement is the bigger long-term benefit

The prospect of recurring revenue has already drawn many businesses across all sectors of the economy to adopt a servitization model – in which the company provides its customers with a product or service in return for a subscription-based fee. While many have successfully deployed this internet-powered customer relationship, many more have struggled or even failed. A company wishing to realize the full benefits and avoid the pitfalls of a servitization model must craft a well-designed implementation plan.

This puts the customer first and builds in regular and positive interactions through long-lasting touchpoints centered on providing tangible benefits.

Initially deployed by technology vendors to allow their customers to rent rather than purchase software, storage, and other capabilities, the servitization model has since expanded to encompass everything from consumer goods to professional services. Examples range from monthly razor clubs to regular deals on underwear, books, and specialty food items, and can even include mentorships with business leaders or artists.

More than a membership

Successful companies are those that looked beyond the membership model as a means to generate recurring revenue and focused on how such a relationship adds value for their customers. This builds brand engagement.

An element of that is the importance of giving customers a reason to interact with the brand every month that goes beyond just making a payment. Special attention must be paid to the pricing model, including how much, if anything, should be given away for free to encourage casual visitors to upgrade to a subscription. Moreover,
once visitors become members, the company must continue to engage with them. The relationship doesn't end with the sale but requires continued contact to ensure customers are satisfied with the product or service, and to identify and address any challenges they encounter. This includes training on optimal use and then anticipating ongoing requirements, such as replacements, repairs, and any other challenges.

The subscription-based economy is saturated with companies that provide similar products and services, so it's essential to differentiate offers from competitors. Success depends upon defining the right business and operating models for a company's specific offerings and customers. There is no single path to implementing servitization, but here are guidelines to get a company started:

Know where the company stands. Before moving to a servitization model, a company must make an honest assessment of its current business model and those qualities which make it unique. This examination should include a maturity assessment to gauge how well various activities contribute to corporate objectives. This assessment should also identify gaps in knowledge or expertise that may prevent executing a successful servitization model.

The company should also benchmark its products and services against its competitors – including those who already operate using a servitization model – to determine its relative strengths and weaknesses in the market.

Set priorities. These include identifying the capabilities required to run and support a servitization model and those required to improve the customer experience. The company should also identify what capabilities it possesses that will help differentiate its offerings from those of its competitors and determine how to reinforce them.

A gradual shift. Unless the company is brand new, it will have an existing customer base for its products and services. Those customers are likely comfortable with the existing arrangement, even if they could benefit from a servitization model. They're also likely to resist change. Therefore, a phased approach may be more prudent than making the transition all at once.
Identify a subset of customers who would be more open to a membership model and select a product or service that would deliver the most benefit to them. Then use that as a pilot project. Be ready to support those customers through the transition process and use the lessons learned to ease the change for other customers and product lines.

Redefine for servitization. As a company embraces servitization, it should examine its operating model through the lens of the full end-to-end customer journey and redefine its operations accordingly. Consider how the business would be different if designed from the ground up to leverage servitization:

- What would the customer experience be like?
- How would marketing and sales be conducted?
- How would the supply chain operate?
- How would distribution and shipping be accomplished?
- How would processes be designed?
- How would customer service be provided?
- How would success be measured?

With a vision in hand, a company should conduct a technical architecture maturity assessment to understand what's required to achieve the targeted business capabilities. Compare various solutions to identify which ones have the highest potential impact or require the least amount of effort to implement and then plan the transition accordingly.

A servitization roadmap

These steps and priorities should be described in a unique company roadmap. This should include a sales and services readiness plan, programs to govern and manage the transformation, and data models to guide the design of required databases. It should also assess various platforms and services required for servitization and make recommendations for software and platform engineering, architecture, and security.

Data powers insight-driven decision making, especially when coupled with AI, personalization, and analytics. Aligning the right customer data with field telemetry and social intelligence drives customer success management as recommendations and feedback are regularly pushed to the field, improving agility and response to changing customer needs.

And, again, regular customer engagement is key. This is because subscription revenue is, by definition, a time-based process. A company that moves from selling a $300 product to using that product to generate $30 per month must retain that customer for at least 10 months. Furthermore, **studies have found** that between 70 and 95 percent of revenue comes from upsells and renewals.

Effectively implementing servitization requires transformative changes to most – if not all – aspects of a company's operation and therefore requires careful planning. The alternative – a poorly designed and executed servitization strategy – can alienate customers. Worse, it can drive them to a competitor.

For more information, please contact:

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