



Manufacturers' Advanced Services: IoT as the key to profitability and growth



Executive Summary

Earlier research conducted by Noventum¹

confirmed that companies which pursue a broad portfolio of growth strategies, including advanced services, grow faster and earn higher profit margins. Further, the research confirmed that the leadership teams of the surveyed companies see the Internet of Things (IoT) as an enabler of advanced services.

Manufacturers expect the Internet of Things (IoT) to create significant opportunities for their service business. Insights from leading manufacturers already show how their IoT investments have led to substantial service benefits. Schindler Elevator has seen a 22% faster service restoration rate created by their enhanced IoT-based remote diagnostic capabilities. For Varian Medical Systems the IoT investment has already led to 20% fewer technician dispatches worldwide and for each problem resolved remotely the customer service costs are reduced by \$2,000². Boosting the service profitability and growth is one of the main objectives of manufacturers' IoT investments.

Much has been written about the IoT's economic contribution, but few insights are available on the specific impact the IoT creates for the manufacturers' service business. The service business of manufacturers is a complex business domain and needs to be examined in detail to offer highly valuable and immediately applicable insights for manufacturers.

This white paper is specifically focused on the manufacturers' service business and discusses in detail how the IoT impacts on 1) manufacturers' service profitability and growth and 2) the development of sustainable competitive advantage for the service business.

1. The IoT's impact on manufacturers' service profitability and growth

The critical product expertise and company specific brand values differentiate the manufacturers' service from other service providers³. While a brand-driven service strategy helps to build the emotional connection with the brand, the IoT helps manufacturers to capitalise on their core expertise to enhance their service offering.

Leveraging enterprise expertise after-sale: The IoT enables manufacturers to offer their core product expertise as a high value service offering. Based on the ongoing access to IoT-based product data, manufacturers can apply their critical expertise to maintain optimal product conditions for their customers.

Scaling the manufacturers' expertise across the installed-base: The IoT expands the reach of the manufacturers' service business beyond its established service customer base. Enhanced remote diagnostics and remote trouble-shooting expand the geographical scope of a profitable service business. New levels of service performance can be offered to a larger customer base.

Applying expertise beyond the manufacturers' own products: The IoT enables manufacturers to integrate competitor products into their service offering. The digital integration with the customer business environment helps to create multi-vendor service offerings and create service growth in stagnant markets.

Efficiency in leveraging the manufacturers' expertise: The IoT creates and captures product status and product utilisation data for the manufacturers' analysis and application.

High levels of automation in monitoring, diagnostics and the service response create unprecedented levels of efficiency in providing critical expertise to the customers.

Manufacturers have the critical expertise to help their customers optimise the utilisation of their products. But the IoT infrastructure provides the connectivity and data to dramatically increase the value of the manufacturers' expertise as it can be applied more efficiently to a large customer base. As industrial products become more sophisticated and customers strive for optimising their use, the demand for the manufacturers' expertise in the form of IoT-enabled value-added services intensifies.

2. The IoT as source of competitive advantage

The service business is becoming a major area of competition for manufacturers. The IoT has become the key for successful service competition and the protection of the current service business.

Capitalise on the installed base: The IoT turns a product into a data source that creates product and market insights. A large IoT-enabled installed base provides critical insights on products, customers and market developments and supports the manufacturers in refining their product and service strategies.

Compete with other service providers: The IoT gives the manufacturer direct continuous insights into the customer's requirements. These customer-insights form the basis for the development of a unique service offering that differentiates the manufacturer from other service providers.

Compete with in-house service departments: The IoT offers the manufacturer critical customer insights to compete with their in-house service department.

The manufacturer obtains the insights to offer the responsiveness and specificity of in-house service departments, in addition to offering its core product expertise. Alternatively, manufacturers can develop IoT-based service offerings to make their unique expertise available to support the

customers in-house service department.

Protect from a new competitive threat: The IoT transforms the service into a data-driven process where companies with a high digital competency will seek to compete. Manufacturers who fail to develop an IoT infrastructure and capabilities will struggle to compete against their digitally savvy competitors, in a market where the data access and analytical capability determine competitiveness. The service business is being changed by the widespread adoption of IoT technology. The IoT provides substantial opportunities for manufacturers to capitalise on their installed base and product expertise, as well as to refine their service offering and create advanced 'pay per use' or 'managed service' offerings. But at the same time, the IoT changes the competitive landscape for the manufacturers' services, introducing new areas of competition and new competitors into the service market.

Focus of this white paper

This white paper analyses the opportunities the IoT creates for the manufacturers' service business. The following specific insights are offered:

- The diverse range of manufacturers' service business models are categorised.
- The scope of the IoT technology is described and its core implications are outlined.
- Diverse practical service business scenarios and the specific IoT contributions are analysed.
- Critical advice on developing an IoT strategy for the manufacturers' service business is offered.

The white paper offers decision makers in the manufacturing industry important insights and hands-on guidelines to exploit IoT-enabled opportunities.

Developed by [Noventum](#) in cooperation with [Aston Business School](#) and the [Advanced Services Group](#), a centre of excellence at Aston Business School.

This white paper falls under the umbrella of Noventum's [Service Innovation Programme](#).

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End Notes

¹ Retrieved 09 May 2016 from <http://www.noventum.eu/white-papers/research-findings-drivers-for-growth>

² Harvard Business Review Analytic Services (2016, April). Internet of things: Science fiction or business fact?. *Harvard Business Review*, Retrieved from <https://hbr.org/sponsored/2016/04/internet-of-things-science-fiction-or-business-fact>

³ Retrieved 09 May 2016 from <http://www.noventum.eu/insights/growing-through-the-brand>

