

# Servicizing

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On 11 April, a workshop was held at the Delft University of Technology on servicizing<sup>1</sup>. Servicizing means that vendors no longer sell products, but the functionality which that product has for the user. A well-known example is the Greenwheels car<sup>2</sup>. Here you make a subscription, which makes it possible you can get a Greenwheels car at all service points. So the functionality of a car, without the worries of the property. Other examples are the iTunes file, or (in several countries) the Spotify music service. With Spotify you only buy the license of digital media and you can only listen online. But for many more songs than you could have ever collected yourself. For both the car and the Spotify service you get a similar or greater service at a fraction of the cost. For the car there is a limitation. For prolonged use you'd better hire a car and in the case of intensive use a private car still is more attractive, though a lease car is also a service and not a product.

The research question for the Delft workshop was whether servicizing can play a role in sustainability by means of decoupling economic growth and resource use. To date, there was a strong link between the two. Economic growth meant growth in energy consumption, which has the effect that there was more oil, gas and coal required. With that energy, more products were made, which again asked for raw materials. With the concept of servicizing fewer products are needed for the same amount of people, while paying less per individual, but in total more for the product. That would mean that economic growth is possible without incurring additional raw materials. The answer to the question seems to be a straightforward 'yes'. The reality unfortunately is more complicated, the very reason that there is a major research project. The extra money generated by servicizing, is also coming back into the economy and the question is where it is spent. Cynically put, if people spent the money they save on an extra holiday by plane, then there is of course no raw material saving. And then remains the question whether the production or the use of an object claims most resources.

In the professional world you also see a trend towards servicizing. Long ago that began with photocopiers, which were very expensive to purchase. So a manufacturer also provided the option that the customer could pay per copy. The manufacturer would then take care of the maintenance and the manufacturer also replaces the machine on time if needed. Especially for smaller companies that do not critically dependent on the copier this was a much more attractive offer. Throughout its lifecycle, you end up paying more, but with the provided service there was a lot more flexibility. In the transition to a paperless office, one could return the copier to the supplier without additional expenses.

In the asset management world servicizing has arrived. The reason is not always cost-saving, but can also be found in improvement in quality and unburdening. Take something as simple as office automation. In a very limited environment you can do a lot yourself. To the store, buy a computer with software, put the data on it (which obviously is very regularly backed up) and run. But if you work with several people and want to share files then it quickly gets difficult. Then you need a shared drive and protocols to get the files on the shared drive. That can be terribly complicated and nobody has the time or inclination to get the needed skills. But to employ a specialist, that could be a bit too much. Here the cloud could offer a solution. You subscribe to a storage service on the web and you can share files with anyone as long as you are online. The service company has many specialists to ensure that state of the art security technology is used, with which your data also is really safe. Only for a large company it will pay off to have own specialists. Although in specific cases with highly classified documents this obviously can be a very compelling reason not to work in the cloud.

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<sup>1</sup> [http://www.spreeproject.com/?page\\_id=15](http://www.spreeproject.com/?page_id=15) and <http://www.youtube.com/watch?v=C8rTORZLIUU>

<sup>2</sup> <https://www.greenwheels.com/global/Home>

Does this also apply to assets that are truly at the heart of the production process? Suppose you are a biscuits manufacturer who bakes very special boluses with a pedantic cut under side. The saw in this process is truly customer-specific and can only be used for these boluses. Now of course you can find a vendor that supplies a pedantic cut as a service, but our assessment is that there will not be many since it is a unique product. Of course you can finance, lease or rent that machine but given the inability to reuse the machine elsewhere, this will be a long term contract. Then, there is not so much difference with possessing the machine. But the more the functionality of the product is standardized, the easier it will be to buy the service. This can go very far, to the purchase of drilled wells in the oil industry. In many cases these are not drilled by the oil companies themselves, but by real specialists, despite the fact that drilling for oil can be seen as a core activity of the oil industry.

In reality things often are even more complicated. The oil company orders a drilled well at a well supplier to be able to extract oil. The supplier will then search for the appropriate platform to drill the well on the specific location. This platform is often hired from other specialists who offer all kinds of offshore technology. This platform will be staffed with a local crew, who does not always have experience with this type of platform. If all goes well, the oil company gets the desired well, the drilling company gets paid and with that money the rent of the platform and the salary of the crew is paid. Everyone is happy. But what if it does not go well.

In response we often hear that the solution is a performance contract. Assume it is the case in this example. If the well supplier exceeds an agreed standard (eg a drilled well with a certain capacity which is available within a certain time), the well supplier receives a nice bonus. The oil company has a higher performance output (more oil), which in turn results in increased sales. So everyone is happy. If the performance is lower than agreed (for instance the well is available later than agreed), then get the well supplier gets a penalty. The oil company receives a discount on the services provided by the well supplier to compensate the revenue loss (somewhat).

But imagine that the drilling goes wrong and there is a lot of oil leaking from the well. Who then is responsible? What if the drilling is delayed because the letter of the platform has not maintained the platform? Or suppose the well supplier did not drill in the soil but drilled a hole in the platform? Who is responsible? Who actually is the asset owner, asset manager or the service provider? And what is the asset?

Tough questions, for which it is not easy to give an answer. That's what we will not do in the last paragraph. Somewhere only the notion hovers around that the end client will be held responsible, as happened with the oil spill in the Gulf of Mexico. As a client in such a case you can have a nice performance contract and give the supplier a penalty, but what is it worth if your supplier goes bankrupt as a result? Is the purchased service an unburdening service, or is it secretly a barrel full of uncontrollable risks?