

Introduction

A major and growing part of innovation is the potential of services around an organization's installed base of clients, equipment, platforms, and software solutions. This trend is so important for equipment manufacturers it has received its own name: "servitization". Some of the underlying drivers are the need to deliver reliable and cost-effective maintenance, to improve uptime of machines, to maximize learning loops, and to monetize system and application knowledge.

This highly relevant business deserves its proper treatment in portfolio analysis. Even where some industries have a long track record in service business models (such as the pay-per-page model in copiers or long-term fixed fee warranties), they are not commonly embedded in the portfolio management process. FLIGHTMAP has built-in support to make sure these models can get the same trusted analysis as product sales and cost savings.

Dealing with service business models in FLIGHTMAP

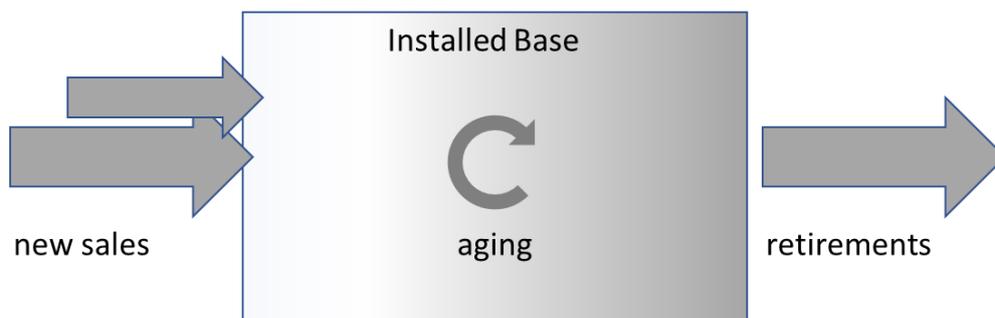
In the FLIGHTMAP business model libraries, support for a wide range of service business propositions is available. Service revenues, staffing, and costs can be properly included in business plans and portfolio analyses. In these models, FLIGHTMAP supports the concept of installed base, and can link volumes, prices, frequencies, and penetration grades for different services based on the installed base of products or product families.

Examples of the service business models include:

- Charging corrective or preventive servicing for (fixed) fee per day (or month, quarter, year, etc);
- Selling replacement parts or consumables (based on usage or volumes);
- Subscription models or even performance-based payments for expert services.

To properly configure a FLIGHTMAP portal for these service models the following steps are needed:

1. Decide on the granularity and the logic of filling and depleting the installed base
Choose the installed base's resolution for tractable analysis. Make sure the resolution is not overly detailed, so it is tough to keep the data up to date.



2. Define the type of services linked to the installed base and their pricing/revenue model

For each of the services, the typical parameters include:

- penetration share (which part of the installed base is addressed (e.g. 100% for captive mandatory)
- pricing (per time period or per use)

3. Define the resource and cost model for each of these services

For each of the service models, specify which of the cost line items and resource categories contribute to the service development and delivery. In case the resourcing is done from the same resource pools as for development, this can crate useful insight into potential resource bottleneck for service execution.

The trade-off between resource allocation to services and to product development is a recurring challenge with our clients. The integrated portfolio view from FLIGHTMAP helps to visualize and resolve the hidden bottlenecks.

4. Cross check if the service business model has (relevant) impact beyond extra revenues and costs

Think about the impact on cannibalization, or end of life of the products in the installed base.



The following practical considerations have helped our clients to address the implementation of these functionalities.

- Focus on the installed base at a level where it can be reliably initialized and maintained, not just by automatically adding and subtracting to the installed base from an aging model. This is even more relevant if (part of) the installed base is third-party equipment you are servicing. Build a periodic update of the installed base from real field information into the process.

- Apply a realistic set of aging and penetration parameters in the data entry, and include data quality checks.
- Start with a subset of known service propositions that can be used to align the configuration, but also include a sample of innovative business models to validate the value of the analysis for decision support on service innovation opportunities.

Conclusion

With the FLIGHTMAP service business model capabilities, FLIGHTMAP moves the state of the art in portfolio management another step forward. This in turn contributes to better decisions, and more value.

For more information about FLIGHTMAP and these capabilities, feel free to contact us.

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