The Post-Covid Future of "Everything as a Service"

By Wolfgang Ulaga , INSEAD

The tough lessons of 2020 will provoke two major developments in B2B, having to do with technology and people.

If you work in the B2B space, you have almost certainly encountered the term "servitisation". Across industries ranging from aviation to telecommunications, B2B companies are supplementing (in some cases, replacing) conventional product sales with services and solutions. Rolls-Royce's pioneering "**Power by the Hour**" model is the prototypical example.

With the shift from supplier to solution provider, customers purchase a guaranteed outcome, instead of a tool and the risk that goes with it. This can transform a standard vendor-client relationship into a collaborative quest to unlock mutual value, claim proponents of solution offerings. Moreover, there is evidence that service-based businesses have **greater profit potential on the whole**, despite the heavy costs involved in adapting to this new business model.

Still, solutions have their detractors among top management, who question whether the advantages outweigh the burdens of additional risk and customer dependency. The destructive impact of Covid-19 may appear to have proven the naysayers right. Few businesses have sailed through the pandemic unscathed, but B2B solution providers have faced an especially dense and compacted cluster of challenges. Indeed, Covid-19 seems to have put pressure on the current weak spots of the solution-based model. More optimistically, you could say that it has identified opportunities for B2B companies to improve. In a new paper for *Journal of Service Research[1]*, I explore the pandemic's implications for the future of solutions – both sobering and encouraging – as well as how providers can put the lessons of this crisis to good use.

Downsides, exposed

Covid-19 precipitated a demand shock that resounded throughout the economy. Ideally, solution-based businesses would have played an active, agile role in their customers' recovery. The reality in many cases, however, was that solutions were rendered ineffective practically overnight, replacement offerings were not developed or took longer than they should have, and providers were left to shoulder all the risks. Supplying "power by the hour", after all, is a bad business to be in when factories are shuttered, airplanes are grounded and international supply chains are in shambles.

The pandemic exposed two interrelated shortcomings of the system, pertaining to customer relationships and agility. Often, the coordination structures, processes and people that would have laid the foundation for strong relationships were unfortunately missing. Instead, relationships were anchored in highly customised solutions, resulting in excessive risk for providers whose offerings were non-transferrable between customers. B2B clients suffered as well, when the complex construction of bespoke solutions made it impossible for providers to resolve issues quickly with modular, plug-and-play components. For some companies, the sense of vendor-client connectedness that servitisation was intended to foster gave way to a mutually accusatory, "me versus them" mentality.

The unexpected fragility of these relationships certainly contributed to many providers' lack of agility during the pandemic. The rigidity with which many solution agreements adhere to predetermined KPIs and gain-sharing arrangements slowed response further.

Future growth directions for solution-based businesses

None of this means, however, that companies should abandon solution-based business models. The shift towards solutions is driven by fundamental business trends that transcend B2B. For example, cloud platforms, such as Amazon Web Services (AWS), increasingly provide comprehensive cloud services and solutions globally. The fast-paced trend enables solutions growth across many other industries.

However, the experience of Covid-19 will not – and should not – be lost on companies. After the pandemic, providers will try to boost their resilience in preparation for the next crisis. This will bring about two major developments.

First, solutions as we now know them are set to become far more complicated and technologically advanced. This will be partly an outgrowth of rising digital transformation, a phenomenon that preceded the pandemic. But it will also be informed by Covid lessons learned the hard way, such as the need for real-time, remote response to customer issues.

The practical problems of managing this increased complexity will pale in comparison to the new opportunities afforded. For example, French tyre manufacturer Michelin is rolling out product-as-a-service models in many markets, leveraging IoT and other emerging technologies to offer a range of performance-enhancing services to commercial customers. The firm's aim is to become a trusted partner for logistics and supply chain companies, rather than a mere purveyor of tyres. If the plan succeeds, Michelin may win a seat at the table with construction companies, public transport agencies, **mobility-as-a-service start-ups** and other entities with a stake in understanding and managing mobility ecosystems holistically. The possibilities for the growth of Michelin's business are virtually limitless.

Second, new organisational roles will come to the fore to operationalise innovations in solution design and deployment. For example, in a recent article for *SMR – Journal of Service Management Research*, Andreas Eggert, Anna Gehring and I looked into the burgeoning field of customer success management (CSM), which is all about ensuring customers recognise and capture the benefits of technologically innovative solutions. Customer success managers work in close cooperation with related functions, such as business developers, key account managers and customer experience managers. However, this position is first and foremost focused on value delivery, i.e. making sure that value is not only promised, but also delivered

and accounted for – together with the customer in a collaborative crusade towards value creation.

The company we studied for the article – a maker of solar-powered IoT devices and expert in **decision agriculture** serving actionable data to farmers and growers – has integrated customer success into every step of the customer journey. Working side-by-side with the sales team, CSMs may intervene to help customers make the most of the purchased solution, by suggesting accessories and data-visualisation software not included in the contract, for instance. Because this role requires a specialised skillset combining technical, sales and business advisory competencies, it is possible to imagine it evolving into something akin to an in-house management consultancy.

The time may be right for a sharp acceleration of these trends. As B2B customers adjust to the disrupted world and gird themselves for recovery, they may be receptive to overtures that may have gone ignored in better times. One B2B executive told me that at the height of the pandemic, his team went into problem-solving mode: "We found opportunities to engage with customers on different topics. During the crisis, customer priorities rapidly changed, and new care-abouts surfaced. Now, all of a sudden, we can talk about topics customers were not interested in before, like asset optimisation, removing inventory and supply chain costs."

B2B providers may find that massively ramping up communications is an ideal first step in optimising their relationships and increasing their responsiveness to changes in customer priorities.

[1] My co-authors were Edward U. Bond III (Bradley University), Ad de Jong (Copenhagen Business School), Andreas Eggert (University of Paderborn), Mark B. Houston (Neeley School of Business), Michael Kleinaltenkamp (Freie Universität Berlin), Ajay K. Kohli (Scheller College of Business), and Thomas Ritter (Copenhagen Business School).

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Covid-19

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