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Servitization: Making the shift from assets to services

New financing models for auto and equipment lenders and lessors

It’s time to move beyond traditional financing

Many bank-owned auto and equipment finance providers and manufacturers’ captives today still rely exclusively on a traditional financing model. They finance the purchase of a vehicle or piece of equipment (an asset), while the customer commits to paying a fixed amount for a fixed term. However, because customer preferences have evolved toward full-service and flexible solutions, these traditional finance solutions are less relevant than they were in the past.

Servitization of auto and equipment financing is a more responsive approach to a dynamic marketplace. It represents a fundamental shift from a “build it and sell it” mindset to one that examines and seeks to optimize the customer’s experience with the asset. By allowing customers to pay for the outcomes they receive from their use of the asset, you can propel your business forward.

The specialty finance market is experiencing enormous disruption.

Evolving market conditions and new customer expectations, coupled with operational and financial constraints, are driving a transformation—toward new servitization financing models.

Auto and equipment finance providers that choose to confine their offerings to traditional financing models face rising operating costs and risk losing market share.

Why servitization works for the customer:

Flexibility
Customers expect the flexibility of a credit line or credit card. Many see a fixed amount or term as being too rigid.

Convenience
Fast credit decisions, quick turnarounds, reliable billing and strong customer service are expected.

One-stop shopping
Assets and services are expected to be bundled.

Variability
Customers expect to pay for only what they consume.

Multi-channel engagement
Customers are used to interacting with their finance providers through different channels.

Seamless end-of-lease operations
A great end-of-lease experience requires the coordination of the multiple parties involved.

Why servitization works for auto and equipment financiers:

Financial benefits, such as improved cash flow and the release of working capital for other business initiatives, increased vendor sales through embedded finance, and payments aligned to business benefits over the lifetime of the agreement. It also means the commitment can be split on the balance sheet between operational and capital expenses.

Business benefits, including improved competitiveness and productivity, and faster speed-to-market.

Economic and social benefits, such as productivity and innovation, less harm to the environment, improved infrastructure, skills development, responsible business and support for economic growth.

Four servitization models

We see auto and equipment finance providers adopting one or more of four different servitization models.

Across the different models, there's a move toward increasing maturity—away from financing assets toward financing outcomes, and toward services based on a price per use. Your choice of model will depend on your business strategy and whether you have the IT infrastructure and talent in place to support it.

1. **All-In Finance**
2. **Outcome Finance**
3. **Managed Services**
4. **Subscription or Utility**

	Main Distinctions	Considerations for Financers	Considerations for Customers	Industry Examples
All-In Finance	Customers lease an asset with bundled services.	Fixed cashflows. Performance risks in addition to counterparty risk.	Full-service solution including asset and bundled services.	Xerox offers the Xerox® All In Plan for small and medium-sized businesses needing an all-inclusive plan that covers printers, supplies and technical support for a fixed monthly fee.[1]
Outcome Finance	Customers pay for outcomes, such as price-per-mile, price-per-page or price-per-gigabyte, for a limited number of assets for a fixed term.	Fixed and variable cashflows, with a minimum customer commitment. Requires usage tracking.	Pay-per-use with the flexibility to increase usage as needed.	BNP Paribas Leasing Solutions offers a Total Volume Plan. Instead of paying a standard five-year lease for printing equipment, customers pay an agreed amount for a total volume of prints. Once the agreed volume is achieved, they can return the equipment or agree to a new contract.[2]
Managed Services	Customers pay for services, based on the use of multiple assets and under a service level agreement (SLA), for a fixed term.	Fixed and variable cashflows for a fixed term.	Committed access to business-critical services at scale defined by the SLA, with flexibility to increase the service as needed. Consumption-based pricing.	Signify offers Light as a Service using a managed services model. The service requires no upfront investment by the end customer.[3] For instance, Amsterdam's Schiphol Airport pays for the light it uses, while Philips remains the owner of all light fixtures and installations.[4]
Subscription or Utility	Customers subscribe to a service either with a commitment (duration or number of users—subscription) or without (utility). Customers can cancel with a limited notice period.	Fixed or variable cashflows. Requires usage tracking.	Access to services with the option to cancel if needs change.	Porsche Drive[5] offers customers single- or multi-vehicle subscriptions. Customers pay a flat monthly rate for one to three months' access to either a single vehicle or multiple car models. The rate includes vehicle maintenance and insurance.

Making the shift has wide implications

Based on our experience, here are seven key things to consider as you plan your servitization journey.

At first glance, it might appear that moving to a servitization model is all about having the right infrastructure in place. That is certainly an important factor. But the shift will have a huge impact on multiple functions across the business, so it's important to build a detailed framework up front to manage the changes that will be required in every area.

Customer financing and accounting

Previous models focused on enterprise or consumer auto and equipment finance. The new servitization models shift that focus to solution financing, and include assets, software, services, subscriptions and multiple forms of recurring payment. Considerations include the high volume of invoicing and invoicing based on usage.

Pricing

The traditional financing model sees pricing based on a one-time product sale or lease. Servitization models require a more sophisticated annuity or subscription-based pricing. Whether pricing is variable or fixed, you'll need access to consumption data to ensure accurate and appropriate pricing that is transparent and competitive.

Sales and channels

While traditional models rely on sales and leasing through distributors, resellers and retailers, servitization models present an opportunity to increase direct sales and work with new ecosystem partners. They leverage a marketing-driven pipeline and expand on initial sales to include other offerings.

Marketing

Traditional marketing focuses on the benefits of various product features. In servitization models, there needs to be a shift toward the more holistic approach of experience marketing. Experiences should be designed to respond to customer needs over the entire lifecycle of a product. That means you need a 360° view of the customer and real-time data to understand their frequently changing needs. You also need to be able to offer self-service trials and a seamless transition from trial to production.

Customer success, service and support

Traditionally, there's been minimal support for customer success, with just the initial onboarding and implementation, and a focus on warranties and fixing things that break. Servitization models recognize that people holding new "customer success" roles can help to drive adoption and usage. They see service as a core offering, with 24/7 monitoring, constant upgrades and data services included. Key components include automated onboarding, robust analytics and scale through automation.

Product engineering

Until now, product engineering has focused on the development of features and functions, all driving toward a "big bang once-and-done" launch. New servitization models require an "evergreen" platform mindset that embraces continuous agile delivery, testing, customer engagement and data-driven feature development. Ecosystem partners are also key.

Technology

Because traditional models relied mainly on the analysis of historical data, auto and equipment finance providers have, until now, been able to maintain self-managed on-premise information technology solutions. But servitization models require real-time data collection and analytics at scale—including predictive analytics. Cloud-based as-a-service solutions, with built-in maintenance and upgrades and scale that can be varied as needed, enable these advanced requirements. And they provide accountability, agility and transparency for true end-to-end governance.

Your first steps on the path to servitization

Based on our research and experience, we have developed a set of key steps to guide your servitization journey.

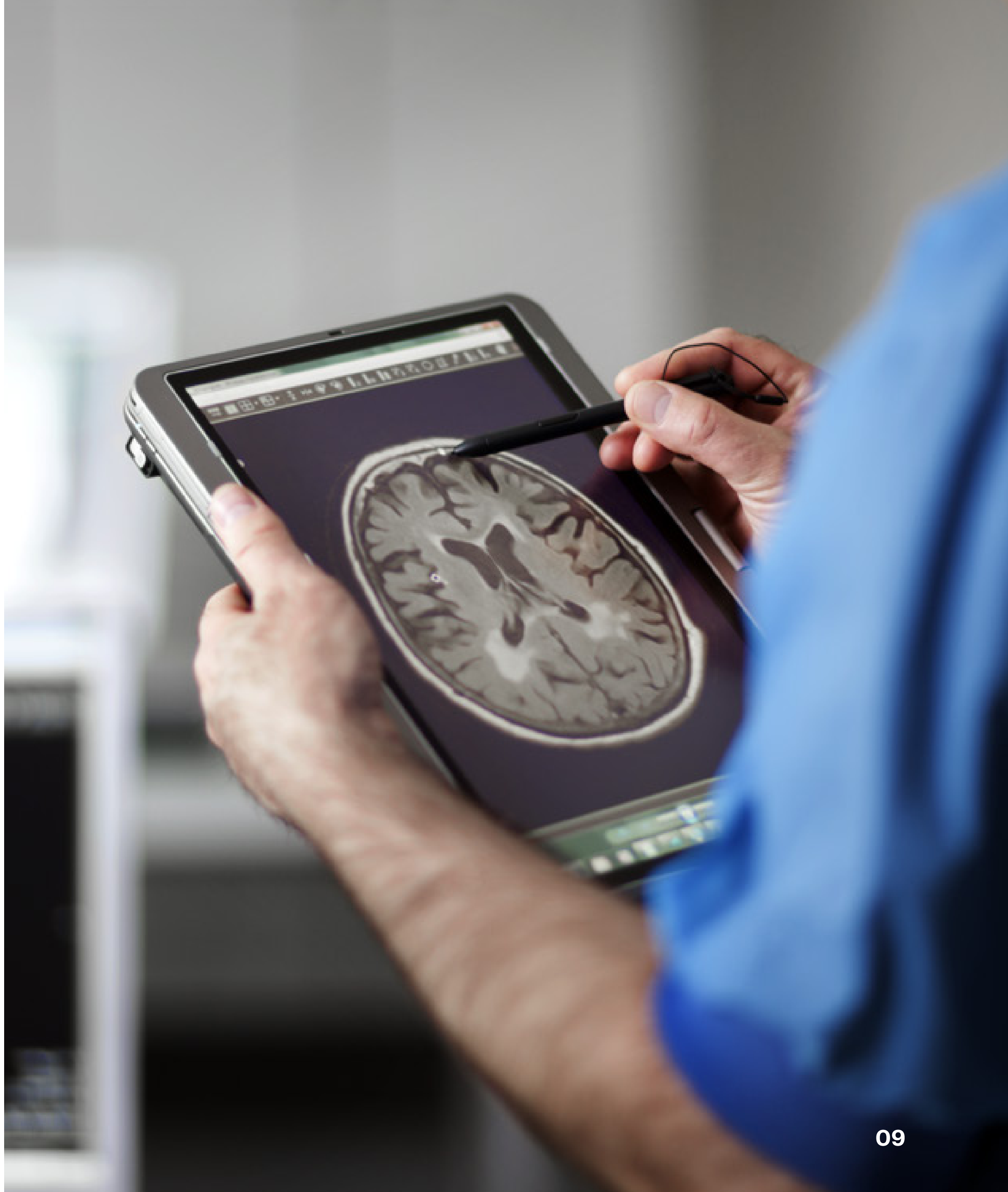
By understanding and anticipating all the areas of the business that will be affected by the shift, you will be able to develop a comprehensive implementation plan that includes robust change management. It will also help you identify the initiatives that will allow quick wins to build momentum, increasing your chances of success.

01
Create a diagnostic blueprint

Perform a comprehensive "as is" assessment of your capabilities and operations and define a "to be" blueprint of improvement initiatives, with redefined business capabilities and processes.

Prioritize initiatives that will provide quick wins.

Reduce complexity wherever possible, particularly where it impacts the customer experience. For example, simplify loan, lease and rental components into a single contract.



02

Develop a detailed design and implementation plan

Design the new servitization solution to address all the critical elements: client needs, credit and risk management, syndication strategy, sales and dealer alignment, legal, revenue recognition and technology.

Consider using a single cloud-hosted platform for administration, billing, accounting and other leasing functions. An appropriate digital platform will support the as-a-service finance business as well as provide the ability to manage the lifecycle of each asset and the contract structure.

Develop the capabilities for data management and variable billing. You'll need a solution and team that can capture all the asset, consumption and location data and manage variable billing in accordance with the as-a-service contract.

Establish business process capabilities or leverage business process outsourcing. If required, select partners that have experience with the relevant platforms and the ability to support as-a-service models.

Create a plan for successful change management. Consider the sequencing of deployments, ways to minimize costs and when the new service should start.

Create a detailed implementation plan that covers the approach, team, work plan, impacts and governance. A training plan and culture of support are also key.

03

Execute your plan and extend it with continuous design and additional as-a-service initiatives

Deploy new solutions and processes, focusing on quick wins to build momentum.

Leverage robotic process automation and analytics to streamline error handling, contract management and collections.

Continue to design and implement additional strategic initiatives.

Maintain governance of quick-win initiatives to ensure the continuation of early successes.

Embrace the future of financing

The world of auto and equipment financing is changing.

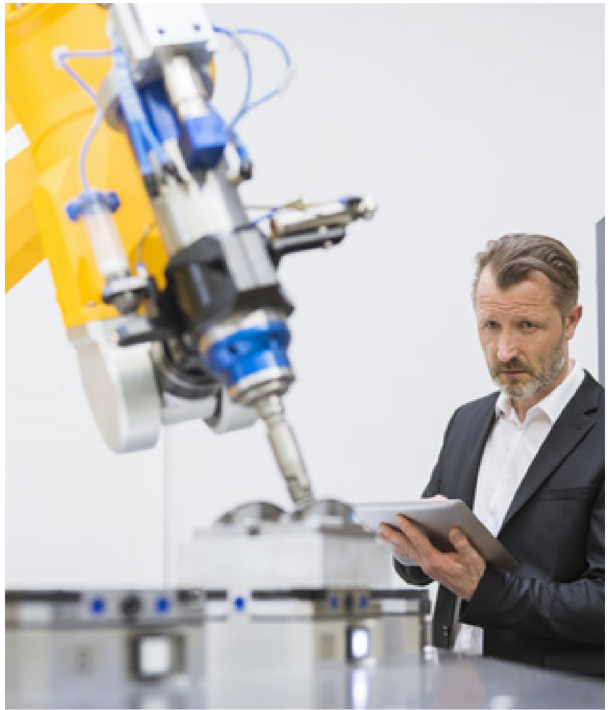
Lenders and lessors are increasingly following the lead of other sectors, bundling services and customer experiences with assets to form new financing models that offer customers a better, more complete service and enable more competitive pricing.

However, the road to servitization will not be an easy one. Because auto and equipment lenders and lessors have underinvested in core technologies over the last two decades, updating their systems to support new financing models will require a significant investment.

Effort and cost aside, there's no avoiding the fact that servitization is the future of financing. To keep up with your peers, you'll need to embrace self-service tools, a global as-a-service offering, digitized or automated processes, a full cloud and open architecture, and a workforce transformation.

The good news is that you don't have to go it alone.

If your organization wants to move beyond a traditional financing model toward one of the four servitization models of the future, we're here to help. We have the industry experience, the scalable capabilities, and the proven solutions to help you innovate faster, drive transformation and enhance customer experiences. To find out more, get in touch with one of our specialty finance experts.



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