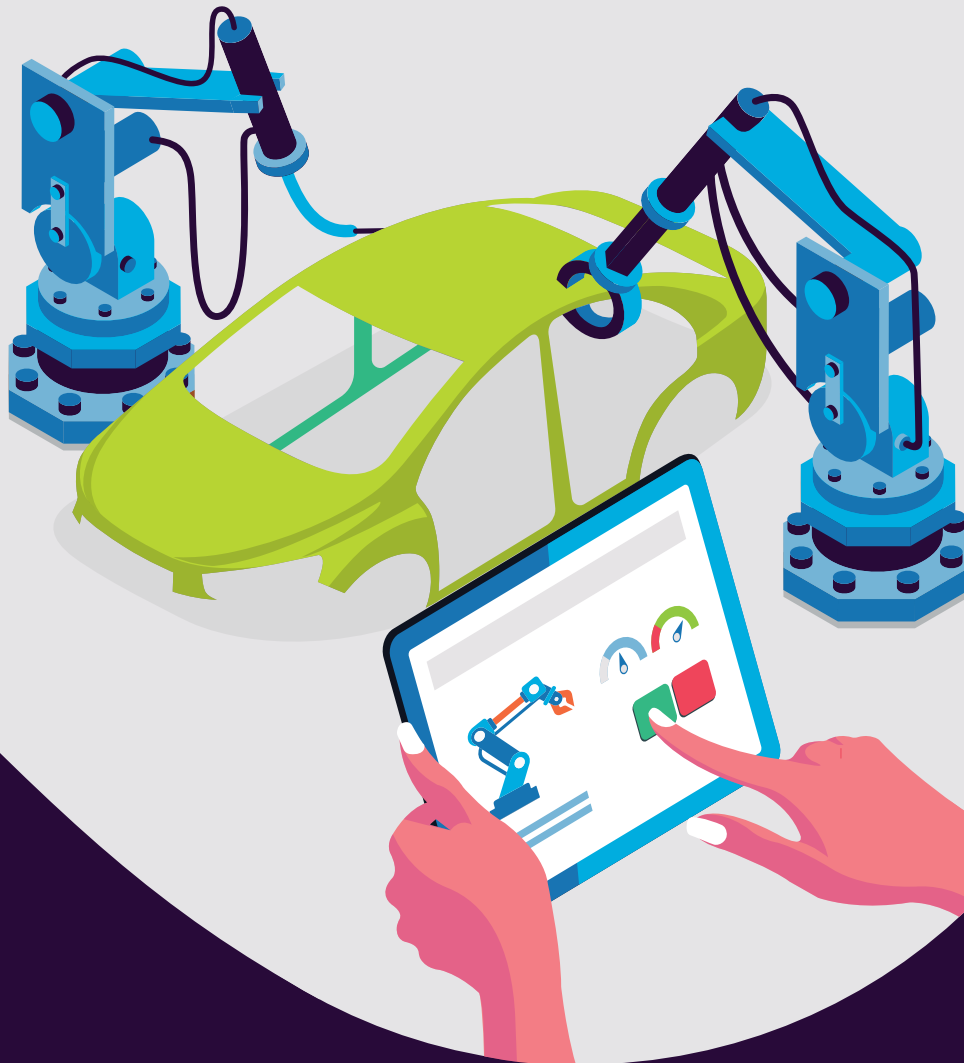


Capgemini 



Recurring income from equipment increases revenue and improves cashflow

Not just for retailers, the subscription model can deliver in discrete manufacturing and automotive settings using IoT, cloud, and artificial intelligence

The first subscription model was introduced in 1962 and it was not in retailing. It was in the airline industry. When an airplane engine failed abruptly, an airline would purchase a replacement from large engine manufacturers, install it, and maintain it. But an unexpected engine failure would cost millions of dollars in engine replacement costs and lost flight revenues.

With different plane models in a fleet, airlines quickly realized their maintenance departments were not qualified to maximize the life of airplane engines, often replacing them prematurely or letting them run until they failed unexpectedly. An engine manufacturer realized airlines did not want to be in the airplane engine business and would rather focus on flying passengers to and from their

desired destinations. The manufacturer developed a new subscription model called power-by-the-hour.

Technology challenges in the 1960s meant the subscription model was not scaled up in other industries, but new advances in IoT, cloud, and Intelligent Industry mean the move towards the Equipment-as-a-Service (EaaS) model is possible. This solves the problems of the equipment manufacturer, customer, and service provider by forming a digital ecosystem. Once the equipment is handed over to the end customer, an OEM has a monetization opportunity in terms of data monitoring and serviceability aspects. EaaS enables complete de-risking with the use of integrated technologies, from customer engagement to health monitoring.

EaaS reduces risk and increases revenue

The traditional product sales model is highly dependent on the product, customer type, and equipment value. Most companies have a one-time sales model with a simple transaction: the customer pays the seller for a product. Manufacturers need more than one-time sales. They should look to services to generate revenue.

The old model means once the equipment is delivered to the customer, OEMs have no visibility to track how it performs or its useful life. It also means the OEM only interacts with the client once, rather than building a relationship. In turbulent times, the high initial investment can be a deterrent for the sale of new equipment, while leasing equipment is more appealing because of less upfront capex investment. The challenge for OEMs will be managing the business risks of EaaS with new digital technologies so it can enhance revenue.

The EaaS business model involves renting out the equipment to the end customer. It is a cultural shift in operations and presents an opportunity to build a more resilient business that is more connected to customers. It changes a number of business functions from sales, finance, customer management, IT systems, and product portfolio alignment, along with services.

This invariably opens several new revenue generation opportunities for OEMs and service partners, including monetizing the data and data analytics for service and research. In addition, it capitalizes on the value chain and usage of a piece of equipment, eases the cash flow of the customers, and reduces the spare parts, inventory, and service costs.

EaaS not only benefits the OEM with increased share of revenue but also provides the customer the opportunity to **reduce its operating cost**. Research shows the potential revenue for vendors increases by a staggering 25 percent while reducing the operation cost for the customer by 15 percent and total cost significantly. New technologies mean EaaS is ready to reduce capital investment and help OEMs improve revenue by approximately 2.5 times and net cash flow by three to four times with recurring revenue.



Building an EaaS framework

Manufacturers, service partners, customers, and financial institutions are all part of EaaS. The OEM continues to own the equipment and the customer buys a subscription. The OEM covers the spare parts, maintenance, diagnostics, and insurance for the equipment with support from the service partner. And financial institutions provide the financing support to cover the equipment. But OEMs need to ensure the equipment can provide the data and insights so they can be maintained adequately.






OEMs need to identify the potential products that can be digitalized and then determine the pricing analysis for bundling the subscription package. The key for EaaS is the ability for the equipment to provide feedback and monitoring. The EaaS

platform needs to be built with a solid understanding of the IT landscape and how to integrate features into the current portal. IoT-based dashboards can provide health and usage monitoring covering data acquisition and aggregation.

EaaS monitoring and cloud services should include predictive maintenance and usage monitoring powered by an advanced analytics engine and artificial intelligence supported by data processing and storage in the cloud. It is essential that OEMs guarantee equipment performance because the customer pays for uptime. This allows the customer to focus on its core business and trust the OEMs to manage all aspects of the equipment.

Creating the right opportunities

There are five keys to success for moving into the EaaS market:

-  An integrated B2B digital platform to allow subscription-based offerings for equipment and services
-  The integration of ecommerce, IoT, and enterprise IT systems
-  The introduction of a digital subscription sales model that covers product usage, remote health monitoring, and operation management
-  Minimizing business risks by onboarding all of the key stakeholders on one platform
-  Enabling data monetization.

EaaS will transform business models and risks will need to be addressed. Capgemini developed an EaaS platform that allows for a smooth transition to a subscription model. It encompasses and synthesizes the pricing model for equipment, online contract management, asset tracking, IoT-based dashboards for the equipment, predictive maintenance based on AI and machine learning, and modern remote services to enable data monetization. The goal is to mitigate all EaaS hurdles so automotive OEMs can focus on the business benefits.

For the same reasons airlines did not want to be in the engine repair business, customers are looking at subscription models because they reduce risk and allow them to focus on their business rather than maintenance. Powered by IoT, cloud, AI, and ML, EaaS has the potential to generate more stable revenue while building a resilient business.



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Note: current conversion is €1 to \$1.20 (2/17/21)