



EQUIPMENT- AS-A-SERVICE: UNDERSTANDING ALL THE MOVING PARTS

With equipment-as-a-service, customers can fully concentrate on running their business on an operating expense (OPEX) basis without the need for costly capital expenditures (CAPEX).
(Courtesy: relayr)

From buzzword to buzzworthy, here's how your business can succeed with a new revenue model.

By KRISHNA YARRAMASU

By this point, those within the industrial market have likely heard the buzz surrounding equipment-as-a-service (EaaS). This model has been around in one form or another for more than five decades. With the challenges facing the industry (inflation, continuing supply chain issues, ongoing war for talent, global trade risks, and a need to conduct business sustainably), EaaS is well-positioned to be a guiding light through the transition.

EaaS is one aspect of digital transformation, and at its root, digital transformation is about three things: intelligence, connectivity, and people. Pursuing digital transformation in any existing company or business model changes its very nature, creating an entirely new ecosystem. And one thing is for certain about ecosystems: They undeniably affect everything within them.

EaaS has come to mean different things to different people. That's why, within this article, we'll explore facets of the concept and the various revenue models and strategic directions within its ranks.

One instance of an EaaS model is a pay-per-use model, where, if done correctly, EaaS helps improve the total cost of ownership by reducing operating costs, creating efficiencies, incorporating intelligence into the right processes, and reducing waste through the supply chain. EaaS is a win-win for the entire industrial market, regardless of function or role within the supply chain. Still, success comes with well-planned and strategic moves.

INTELLIGENCE AND CONNECTIVITY IN ACTION

EaaS is essentially a process whereby machinery, equipment, or production systems are not purchased outright. Rather, the useful output produced is offered as a service in exchange for a fee.

Far more than a standard lease, this model places the responsibility for maintenance, service, repairs, and replacement with the party offering the equipment-as-a-service model, who very often is the original equipment manufacturer (OEM). For these OEMs, EaaS provides a predictable and recurring revenue stream. Further, it allows for data-driven improvements that positively affect all value-chain elements, including product development, customer service, operations, and logistics.

In turn, the customer can fully concentrate on running their business on an operating expense (OPEX) basis without the need for costly capital expenditures (CAPEX). This setup improves customer operations, revenues, and resiliency for both parties. This model is also known as servitization.

SUBSCRIPTION-BASED SUCCESS

There are a variety of subscription models to consider whether you're using the services or providing them, and each comes with its own set of pros and cons to evaluate before adoption. Below are a few examples of subscription-based revenue models, though the route you decide ultimately depends on customer needs:

▸ **Unlimited subscription:** This approach allows for an unlimited quantity of machinery and services over a set time.

▸ **Consumption-based:** Also known as a pay-per-use basis. Often, this path doesn't include a set commitment to a duration of time.

▸ **Predefined subscription:** This model gives customers access to a set number of preferred services over a predefined period.

▸ **Outcome-based:** This model is all about pricing around the productive output of the equipment or production system.

▸ **Subscription plus overages:** This model uses predefined usages over a specific duration. Any overages are billed based on actual use.

▸ **Freemium:** Basic services are free; charges occur for advanced or full features.

IN THE END, IT'S ABOUT PEOPLE

Catchphrases, buzzwords, and those who use them unsparingly shouldn't dictate these major decisions and ideological shifts within the industry. These business-critical decisions must come from a place of expert insight and meaningful dialogue with end customers. The journey starts from understanding your desired business outcomes, which stem from a solid strategic plan.

For as much technology and technical talk surrounding digital transformation, the true transformation begins with people and processes, involving far more than simply technology. EaaS will transform the way industrial companies do business. It has an impact on people, planning, research, development, manufacturing, marketing, sales, and services. Therefore, your strategy must be top-notch both in terms of how it's defined and how it's executed. Here are some best practices to consider:

GAIN INTERNAL ALIGNMENT – COMMUNICATE THE 'WHAT' AND 'WHY' OF YOUR STRATEGY

Regardless of the means used to get there, it's essential to build company-wide buy-in and establish digital transformation as part of top management's — ideally the CEO's — agenda. This approach acknowledges the



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complexity of change required and signals to the organization that management is fully bought into change.

Ensure people understand both “what” is trying to be accomplished and “why.” Once they understand the answers to these two questions, achieving internal alignment will be much less of a hurdle.

ESTABLISH A FIRM UNDERSTANDING OF YOUR CUSTOMERS

Don’t make decisions for the sake of making decisions, and don’t make product or technology decisions for the sake of committing to the “latest and greatest.” Insist that all decisions—especially product and operational decisions—are always dictated by a firm understanding of customer needs and pain points.

Ensure you find the right positioning and value proposition for your offering and, most importantly, commit to these decisions. These elements always dictate the technology and operational decisions, and not vice-versa.

In other words, stay focused. Think of the clients you serve today and the ones you want to attract. Value depletes when attempting to be everything to everyone.

IDENTIFY THE RISK AS BEST AS POSSIBLE

Proper risk management will beat attempted risk aversion every time. There will always be unseen risks emerging at every step. EaaS typically involves more types of risks than typical loans or leases.

Understandably, risk management may take on a strategic life of its own. It’s best to build a comprehensive understanding of your risks, understand who takes on those risks (your partners, you, or your customers), and have a risk mitigation plan for each.

BE FLEXIBLE WITH YOUR CLIENTS’ NEEDS AND SERVICES

To quote the great social scientist Gregory Bateson, “differences make a difference.” A best practice is to calculate customer-specific price-

point models based on lifecycle costs. This analysis factors into contractual agreements. Catering to a customer’s specific situation shows you know and understand their business. Ensure that this thinking follows through in your development and execution with customers.

THINK IN TERMS OF THE BIG PICTURE; ACT IN TERMS OF MICRO-GOALS

System-wide thinking helps establish a cadence for change. Nothing is more costly than meaningless moves unrelated to the larger picture. Strategize in terms of the entire ecosystem, not single initiatives, pilot programs, or start-and-stop mentalities.

PREPARING FOR CHANGE

Transformation creates a new environment for your company and the services you provide. Making sure the right people are in the right seats will make a massive difference in your success.

First, engage your existing staff and be clear on expectations, goals, plans, and how they can be most helpful. Communication with existing customers is equally as important. During this time of change, remember the three Cs of success: cooperate, coordinate, and communicate.

Once a thorough strategy is developed, glaring holes often emerge where personnel is missing. See a spot where a data scientist should be? Bingo, there’s a seat needing a hiring solution.

Also, incorporate empathy in onboarding. Perhaps even have a dedicated onboarding team helping guide employees and customers through the maze of transformation. There will be questions, concerns, and comments. An onboarding team will help you capture those and expand the value of a digital transformation partner.

After all, the industrial market is a complex and ever-changing ecosystem transforming faster than many are ready or willing to admit. Connectivity has brought us quickly into the era of the equipment-outcome economy, and EaaS is a win-win model for the industry that’s not going away soon. The once-future has arrived; are you ready? 🚀

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