MANUFACTURING

HOW TO LIGHTEN UP BUSINESS MODELS

TCS Industry Insights

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TCS: *What are the key ways in which manufacturing companies have simplified their business models in the past few years?*

Milind Lakkad: Several distinct models are visible in the marketplace, the first on the product side. Companies have dramatically reduced the total cost of managing multiple products, for example in the car industry, by designing platforms that they apply across models. This lets companies simplify product lines as well as supply chains. Supplier consolidation and harmonization of components contributes significantly towards this effort. Similarly, in the customer-facing areas of sales and services, companies have made it significantly easier for customers to do business with them by integrating all potential touch points. Offering a complete range of parts and services online, with customer-friendly self-service options, reduces the total cost of conducting business and enhances customer satisfaction. Changes like these bring manufacturers closer to the ideal paradigm of 'design anywhere, build anywhere, and sell anywhere'.

TCS: *How are manufacturing companies lightening the business model and generating new revenue streams by solving additional customer problems?*
Lakkad: New age technology is enabling manufacturers to explore and exploit new business models. Two examples come to mind. The first, a large industrial power equipment manufacturer, seeks to generate services revenue secured via long-term contracts, by offering what matters most to its customers—equipment up-time. By monitoring and predicting the behavior of the installed equipment, using cloud-based big data analytics, the company heads off equipment problems for customers and quickly addresses any issues. These exclusive services are offered at a premium.

Elsewhere a diversified manufacturing firm has started its journey to become a 'software-centric enterprise,' by monetizing insights gleaned from data that resides on its products in the field. These insights can be shared with the customer for performance enhancements, for example, tuning airplane engine performance for specific, and dynamic, flying conditions in order to save on fuel costs. The manufacturer takes a share of the savings accrued.

TCS: *What stands in the way of further simplification of business models for manufacturing companies?*
Lakkad: Companies face both internal and external barriers while adopting simpler business models. From an internal perspective, years of capital-intensive investments limit a company's ability to exit current business models and embrace new ones. Manufacturing companies typically carry over significant costs from the past. Nevertheless, companies are trying various 'CapEx to OpEx' models, including contract manufacturing, divestitures, and the like.

From an external perspective, joint venture and merger and acquisition deals, which are frequent in the industry, can create new barriers as companies strive to harmonize business operations. Ambitious 'convergence' initiatives, designed to harness the core strengths of both organizations, will fail without strong executive sponsorship and strategic focus. Whether a company faces internal or external barriers, managing change across a diverse workforce poses its own challenges.

TCS: *How different will a typical manufacturing company's business model look five years from now?*

Lakkad: The advent of the Internet of Things changes the picture significantly, enabling the production of smart, connected products that let manufacturers be in touch with customers throughout the entire life of the product. First let us look at business model change driven by this phenomenon. Connected products let the manufacturer disintermediate the channel and transform from being a business-to-business (B2B) player to a business-to-business-to-consumer (B2B2C) player. This paradigm shift allows manufacturers to work on new business models, especially around services. For years, distributors and intermediaries captured the services revenue, while the manufacturer capitalized only on the sale of the asset. Now the manufacturer can gain annuity revenue from services, which also cushions against cyclical business downturns. In five years, one can expect the manufacturing business model to be a mix of diversified services businesses, driven by a software-enabled enterprise.

The other big model shift is the concept of 'extended mobility' driven by connected cars. The emergence of the shared car concept is creating a new business model, which will require auto manufacturers to establish new ways to engage customers. In five years, we would not be surprised to see a significant portfolio of auto manufacturer revenues coming from this new channel, which a few years ago was unimaginable.