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INTERVIEW

FROM CAPEX TO OPEX

The TREND REPORT editors speak today with
Dr. Thomas Trautmann,
managing director and partner of CYLAD Consulting, about recurring revenue business models in plant manufacturers.
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What challenges do machine manufacturers currently face in the context of digital transformation?

To effectively translate digital technologies into continuous efficiency gains and fundamentally changed business models. On the level of the business model, the classical capital-intensive investments in machine parks are being increasingly replaced by subscription models in the same way that has for a long time been the case in the consumer goods industry such as with Netflix or Sixt. The need for permanently increasing efficiency is ultimately driven by two factors: first, the strong competition from Asia in the direct sales market of the manufacturers, as well as in the markets of the mechanical operators; second, there is an increasing demand for energy efficiency, which is being driven by the climate debates.

What meaning do “X-as-a-Service business models” have in this context?

These are a form of business models that generate revenue from recurring services instead of one-off investments. The machine is sold as a service instead of as a product, analogous to the software world, in which the licensing business models are increasingly replaced by cloud- and subscription-based software-as-a-service models. In mechanical and plant engineering as well as result- and time-based XaaS business models, there are the following industry examples: Atlas Copco, manufacturer of pneumatic compressors, bills according to air usage of compressors in their AIRplan subscription model, rather than selling the compressors themselves; Jungheinrich, on the other hand, offers a time-based long-term rental model for forklifts. Both hold the responsibility for maintaining availability of their fleet.

Upon what does the implementation depend?

First, the change from Capex- to Opex-based business adds economic value for both sides. The plant operators should see the advantages of a somewhat higher flexibility, reduced investment costs, or a concrete performance promise. For instance, Siemens contractually guarantees quantified energy savings in its Building-as-a-Service offer as a basis for its invoice amounts. The implementation of such business models poses daunting challenges for traditional players which, next to technical questions like cyber security or operative questions like scaling of back-office processes, reach far into the company's culture, from development to sales.

Why is the XaaS sales model a super weapon for companies considering the digital future?

From the owner's perspective, data-based recurring revenue drives the company value. The stock exchange evaluates €1 revenue with multiples of 5-10x the company value in comparison to multiples of 1-2x for classical product and service businesses. Drivers for this include larger growth potential with CAGRs of >25%, 3-7x higher EBIT margins, and ultimately more stable and predictable sales. In essence, this even works without digitalization. Cloud-based technologies and the Industrial Internet of Things (IIOT), however, dramatically expand the possibilities through billing models such as pay-per-part or sensor-based services such as predictive maintenance.