#5 Recovering From Covid-19: Transformation In Machinery Services

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# Transformation In Machinery Services

*This is a blog series on* **how international companies in China should be responding in the wake of the ongoing Covid-19 crisis**. *Although the pandemic is continuing to cause huge disruption to the global economy, the recovery in China is underway. That makes it wise to start allocating at least some management bandwidth back to strategic planning and investment, especially as the business context in many sectors has been significantly reshaped. In this fifth post, InterChina's partners Eduardo Morcillo, James Sinclair and Franc Kaiser reflect on* **how the crisis will transform the machinery sector**.

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It is already becoming clear that Covid-19 marks a huge turning point for virtually every sector of the economy, exposing the weaknesses of long-established business models while shining a light on new technologies which will transform working practices.

One sector in China that is already feeling the full force of this enormous change is machinery and industrial equipment, and the fact that in the wake of Covid-19 customers will now be much more willing to adopt remote services to guarantee maintenance of machines. This is hardly surprising given that during the peak of the

crisis field service technicians were simply unable to access customer sites in person. As such manufacturers are having to completely re-think the connection question.

## Accepting Digital Services

We recently invited a number of leading multinational manufacturers to debate this precise topic. The round-table event was not only notable for the fascinating nature of the discussion, but also because it was the first time that any on our panel of executives had attended an external meeting in person since Chinese New Year.

Our panelists came from a diverse range of sectors including injection moulding, printing presses, machine tools and 3D printers. Nevertheless, in the wake of Covid-19, all were faced with similar challenges, and all believed that the crisis would lead to a step change in the corporate approach to remote servicing. For instance, they recounted how many of their customers had enjoyed the experience of using remote services for the first time, finding it both very efficient and cost effective.

This is quite a transformation. Before the crisis many machine makers really struggled to convince Chinese customers of the benefits of connecting their machines to the internet in order to allow remote servicing. This was partly down to cost, with services being perceived as too expensive, especially when provided by foreign vendors. But it was also due to business culture, with Chinese bosses traditionally preferring to have people on site dealing with problems as and when they arise, giving them peace of mind that problems can be sorted out quickly.

The crisis shows that such an approach is simply not viable, especially if the pandemic continues to cause problems in the months and years ahead. Instead, there are many ways in which experts can help from a remote location once connected with a local technician. One of the biggest benefits of all is that remote services can accurately predict when a machine is likely to break down, so pre-empting potential disruption to a factory.

That all said, there is still one major barrier to digital services acceptance, and that is security. Time will tell whether concerns over data leakage or hacking can truly be overcome.

## New Business Model

As remote services take off and local technicians are taught online, so this will drive a new business model. In particular, we are likely to see the development of two different systems. Firstly, an operating system run by headquarters which acts as a

connection for data transmission. And secondly a simple, open platform (such as WeChat) to communicate and engage with the customer.

The development of this model isn't without challenges. There is fierce debate about which are the best web tools to use, especially given that it is difficult for some manufacturers to get approval from headquarters to use certain types of platforms. Some manufacturers also face the challenge of having to use US or European-based data platforms, as opposed to Chinese platforms.

But in time these technical issues will surely be overcome. Meanwhile, we will see a rise in remote training so that customers can 'own' their training materials such as videos and manuals, which means they will also be less worried about losing a well-trained employee.

Multinationals should also be looking right now at creating new remote services teams with very separate KPIs from the usual service team (to avoid conflicts in motivation and interests), while on-site technicians should be incentivized to try and persuade customers to take up more remote services.

## Paying For Services

Further to our earlier point, arguably the biggest challenge will simply be persuading customers to pay for such remote services because they are still viewed as expensive.

Foreign vendors will need to keep pushing the benefits of the technology while also accepting that they will have to lower services costs to make the proposition more attractive. They will also need to better segment their customers and be more aggressive in their sales and marketing approach so that customers come to value the services sufficiently to pay for them. It is also worth noting here that foreign vendors still have an advantage in trustworthiness among Chinese customers, so leveraging this will be important too.

Questions do remain over precisely how foreign vendors can best monetize new digital engagement models and how they can make money out of it. One idea could be to start offering two sets of prices to customers, one based on remote servicing and training, and the other around on-site servicing and training.

A more radical idea could be to offer content and delivery for free and rely on advertising and sponsorship from third parties to finance it. Or, maybe, you could offer a chargeable online service with a 100% money back guarantee in case the customer is unsatisfied.

## 5G Opportunity

Something that all our panelists agreed on was that China's planned rollout of 5G made the adoption of remote digital services far more achievable, and indeed, puts China ahead of Europe and the US in this regard.

Crucially, it also means that the take-up of remote services can be intrinsically linked with a company's wider approach to smart, advanced manufacturing and the adoption of Industry 4.0 technologies, thereby linking its adoption with a thorough analysis of the medium to long term advantages of embracing new technologies in terms of ROI.

Such vast change reminds us of the transformation that followed the dotcom boom almost 20 years ago. Just as that era heralded a revolution in online consumer behavior, so Covid-19 looks set to have an even greater impact on digitalizing vast swathes of our industrial economy.

## Next Time

In our next posting we will examine action points for international businesses active in China's consumer space.

## Blog Series

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