

# PRODUCT AS A SERVICE BUSINESS MODEL

WHAT IS THE PRODUCT AS A  
SERVICE BUSINESS MODEL?



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# INTRODUCTION

Watch the video to learn about the Product as a Service business model.

This video will introduce the Product as a service business model and also provide examples of it in action. It will explain how the PaaS business model can benefit both customers and manufacturers, and how it promotes sustainability and the circular economy.



# EXPECTED LEARNING OUTCOMES

<b>KNOWLEDGE</b>	<ul style="list-style-type: none"><li>• Knowledge of the practical applications of the 'Product as a Service' business model.</li><li>• Knowledge of the responsibility of the entrepreneur in ensuring product sustainability and safe disposal.</li><li>• Knowledge of setting up a Product as a Service business.</li></ul>
<b>SKILLS</b>	<ul style="list-style-type: none"><li>• Brainstorm and mind-map opportunities for Product as a Service business model.</li><li>• Discuss the role and responsibilities of the entrepreneur and the consumer in the Product as a Service business model.</li><li>• Research and author a contract for entrepreneurs and customers engaged in Product as a Service agreement.</li></ul>
<b>ATTITUDES</b>	<ul style="list-style-type: none"><li>• Willingness to develop ideas for a Product as a Service business.</li><li>• Integrity and responsibility towards the products and the customers.</li></ul>



# SELF-REFLECTION EXERCISE

Welcome! In this quiz, you will face 10 questions that will show you the initial basic knowledge you have about the Product as a Service business model.

[https://docs.google.com/forms/d/e/1FAIpQLSd6o4XY2GaAYppcAeD2lixs7layNv4XUbczCYwl3hkXRZaoMQ/viewform?usp=sf\\_link](https://docs.google.com/forms/d/e/1FAIpQLSd6o4XY2GaAYppcAeD2lixs7layNv4XUbczCYwl3hkXRZaoMQ/viewform?usp=sf_link)



**SETTING UP A PRODUCT  
AS A SERVICE BUSINESS.**

## What is the Product as a service business model?

Product-as-a-Service (PaaS) is a business model that allows customers to buy services and outcomes that a product can provide rather than purchasing the product itself. Servicing is supporting another party's everyday processes in a way that helps this person or organisation to reach its goals in a value-creating manner.

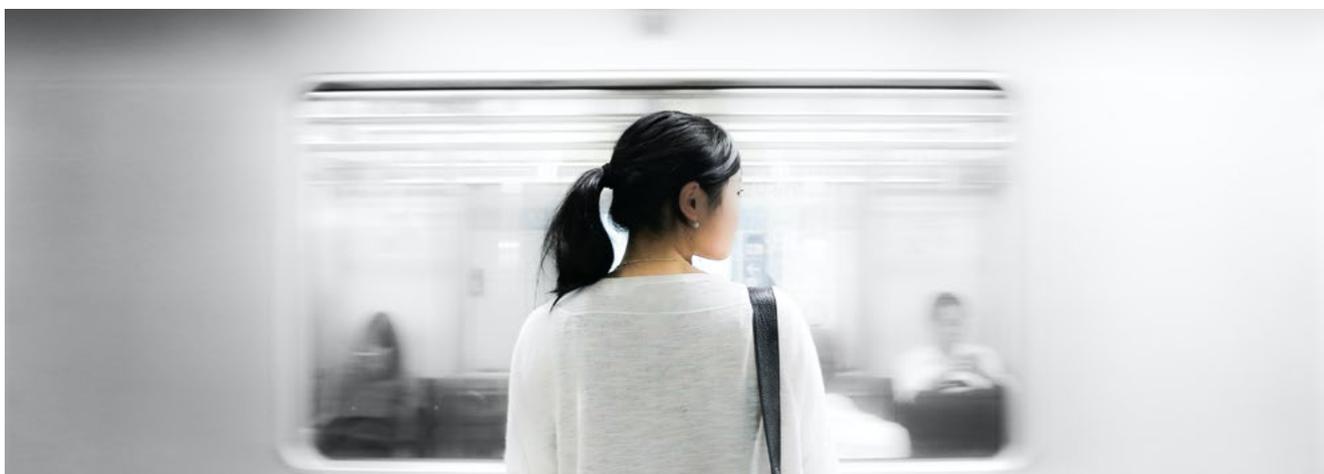
## Why adopt Product as a Service business model?

For manufacturers, PaaS has the potential to earn more recurring revenue from subscriptions. It also provides a greater stability and consistency of income, which allows for better financial planning. Instead of receiving one-time incomes, manufacturers now profit from recurring revenues generated over the product's lifespan. The rise of the Internet of Things enables them to analyse customer behaviour and needs and this, in turn, allows them to develop deeper customer relationships.



## Why does the PaaS business model work?

PaaS aims to benefit both the customer and manufacturer. For customers, PaaS reduces the initial expense of buying the product outright, allowing customers to pay smaller, recurring amounts. As customers continuously pay for the services they are receiving, there is a much stronger motive for the manufacturers to have a meaningful relationships with its end-user. Doing so will then increase chances of customer loyalty, hence opening new business opportunities. As customer retention now significantly relies on the service delivered, manufacturers have incentives to optimise their customer experience. This can lead to newer and more personalized experiences which ought to enhance customer satisfaction. Customers can expect a better quality of product/service with the PaaS business model, because it is in manufacturers interests to offer longer-lasting and higher quality products.



Overall, PaaS provides financial predictability for manufacturers and a wider variety of options to customers, who only need to pay for what they consume.

**THE PRACTICAL APPLICATIONS  
OF THE 'PRODUCT AS A  
SERVICE' BUSINESS MODEL.**

There are numerous examples of manufacturers using the Product as a service business model.

Schiphol airport in Amsterdam is a prime example of innovation using the PaaS business model. Schiphol airport is charged for the lighting it consumes from Philips' light bulbs, just as Uber passengers will be charged according to the length of their ride. Instead of purchasing, installing and maintaining all the lights required, Schiphol airport pays Phillips a subscription fee for them to light the entire airport. While Schiphol continuously pays for the energy consumed to light the airport without any upfront costs, Philips still owns the lamps and is responsible for keeping them up and running. This incentivises Phillips to provide the most efficient and durable lights available. To shift the risk of performance from the customer to the manufacturer provides the customer with a peace of mind. This lighting deal has successfully been in place with Phillips since 2015.

Another practical example of the PaaS business model is the move from car ownership to on demand vehicles such as GoCar. Car ownership often symbolised independence in previous generations, however owning a car does not appeal to younger generations as much. It might still seem cheaper, more convenient and necessary to buy a car. But, did you consider the maintenance costs? The depreciation? Or even how much money you are losing every time your car sits in your garage? Did you know that cars are parked over 90% of the time?



On-demand mobility services fix all these worries. The pay-as-you-go model has now been labelled as affordable, flexible and convenient, particularly for those living in large, crowded cities.

Utilising online file storage services instead of physical USB/hard drives is another prime example of the PaaS business model. Today, instead of paying around €150 for a 500GB hard drive, you pay €20 per year for 100 GB or €100 per year for 1TB space on Google Drive. Not only are customers saving money, but they can now have access to their files from the cloud from anywhere once they have an internet connection. If you don't need cloud in future, just stop using it and cancel your subscription.

That does not even include the standard 15GB free offered. Providing customers with options like these has meant a significant shift from physical hard drive storage to the cloud model.



# **OPPORTUNITIES FOR PRODUCT AS A SERVICE BUSINESS MODEL**

The PaaS business model provides new opportunities and revenue streams for businesses willing to adapt and transition. Many companies may begin to evaluate if they need to make the transition from selling products to offering product subscriptions. Customers are now adopting a more circular way of acquiring products, and sustainable businesses will continue to grow over time.

The opportunity to switch to a subscription model will be appealing for many businesses. Grocers and farmers could be a prime example of this new opportunity: selling weekly food boxes on a subscription basis could offer grocery retailers and farmers another stream of income. This model is already proving successful on a small scale. Boxes can be tailored to suit the customer and it also allows companies to learn even more about customers' shopping habits.

PaaS has a strong focus on sustainability, with the possibility of reusing materials. If the customer wishes to return the product, then the producer can repurpose and reuse some parts or materials of the product into building the product again. By keeping items in the highest value order for the longest period of time, manufacturers can increase profitability in the long run. Products that can be disassembled and parts that can be contribute to the Circular Economy.

It is important to show your company benefits with Product-as-a-Service model. This is an opportunity to showcase what your unique offering or selling point is.



Why should I buy this product from you? Most of the customers ask this to themselves; Why you instead of any other company? Not only because you're adding additional services/features will necessarily mean that more people will buy your product. Acknowledge your value proposition; what is it that makes your company unique. Show clearly the benefits of offering your Product-as-a-Service instead of buying it. Why is this better than just owning the product? Manufacturers should advertise the positive aspects of PaaS, such as broader end-to-end customization and personalization for customers. There is scope to improve customer engagement with long-term relationships with your customers. If your company stands for better customer service, then this is a powerful way to differentiate yourself from competitors.



# **RESPONSIBILITY OF THE ENTREPRENEUR IN ENSURING PRODUCT SUSTAINABILITY AND SAFE DISPOSAL**

There are many elements to ensuring product sustainability throughout its lifecycle. PaaS, as a circular economy business model, encourages products and parts to be repaired, repurposed and reused, if possible. This reduces the overall environmental impact. The servitisation model has a greater focus on sustainability because it also encourages more durable and higher quality products for customers, as they are now paying for the service as much as the product, which includes the continued maintenance of the product-services.

As we are talking about the sustainability of the entire production chain, the PaaS model also deals with the maintenance of these product-services, recycling and, when necessary, product replacement. It brings an end to product maintenance, and the costs associated with it, by customers. Therefore, we reduce the environmental impact of the entire product cycle. A more sustainable economy is built up through the reduction of problems related to the reuse of waste.

Providing safe disposal of any waste related to their product is a vital responsibility of the entrepreneur. To ensure a sustainable business model, systems need to be established to actively manage the safe disposal of all waste materials.



# **ROLE AND RESPONSIBILITIES OF THE ENTREPRENEUR AND THE CONSUMER IN THE PRODUCT AS A SERVICE BUSINESS MODEL**

The roles and responsibilities of the entrepreneur in the PaaS business model are varied. With the paid subscription model, the responsibility for product maintenance lies with the manufacturer. A typical example of this would be Rolls Royce offering their jet engines on a PaaS business model. With this service, Rolls Royce produce, install and maintain the planes jet engines. The consumers, in this case the airline companies, no longer have to worry about the maintenance of the engines, because the responsibility has been diverted to Rolls Royce. This leads to a greater emphasis on product sustainability with the PaaS business model as the maintenance risk lies with the manufacturer.

What Rolls Royce is doing currently with its “power-by-the-hour” program is a good example of servitisation and their new role in it. Instead of only selling Aero Engines and letting customers take charge of maintenance and uptime, Rolls-Royce now offers a full package that includes a product and relevant services. The PaaS business model can lead to products being more efficient because manufacturers are now incentivised to ensure the longevity and durability of their products. Customers will be unwilling to pay a subscription for a substandard product. This shift puts the responsibility for maintenance on the manufacturer, allowing customers to derisk their business.



Servitisation translates itself as a holistic shift: from product manufacturers to service providers, one-time purchases to demand-based plans. Growing their expectations as fast as technology evolves, customers now want their purchases to be worth their time and money. Businesses are then servitising their models to aim at minimizing customer efforts, while unveiling additional value at profitable costs.



# FINAL ASSESSMENT TASK

### **TITLE OF THE TASK:**

Product as a service business model

### **AIM OF THE ACTIVITY:**

Introducing the Product as a service business model via a video

### **TIME REQUIRED:**

Participants will need 4-6 hours to achieve this task.

3 or 4 hours to think of an idea, research and develop the story

1 or 2 hours to record and upload the video

### **MATERIALS REQUIRED:**

Articles, links and video in Eduzine.

Camera

Editing software

Laptop

Internet access

### **FORMAT FOR THE PRESENTATION:**

PowerPoint or Google slides presentation / Video

## STEPS TO COMPLETE THE TASK:

- **Step 1:** Formulate a number of ideas for your video. Your task is to create a short video to promote the product as a service business model.
- **Step 2:** Refine your ideas to 1 or 2 you like the most or that has good potential and then choose which you will use.
- **Step 3:** Your video should include an introduction into what the PaaS business model is, successful examples of PaaS business model in action, and how the PaaS business model is more sustainable and links to the circular economy.
- **Step 4:** It is up to you to decide the style and format of the short video, but remember, it needs to be interesting or engaging enough for people to want to watch it. So, create something that is worth watching!
- **Step 5:** Edit the video as necessary
- **Step 6:** Once completed, participants are invited to share their work



**FINAL TEST**

Are you ready to show what you have learned from the Eduzine?

Do you feel you know more about the PaaS business model now than when taking the self-reflection quiz at the beginning?

Once you have read all of the articles in the eduzine, you will have no problems completing this quiz.

[Click here to be taken to the final test quiz.](#)



# **FURTHER READING AND RESOURCES**

## The Circular Economy: Product as a Service Business Model

<https://blog.veolianorthamerica.com/circular-economy-product-as-a-service-business-model>

## Get Ready For The Product-As-A-Service Revolution

<https://www.forbes.com/sites/servicenow/2020/10/15/get-ready-for-the-product-as-a-service-revolution/?sh=6cdd3c1d4226>

## Service as a Business Model - Service Logic and Customer Focus

<https://www.youtube.com/watch?v=6DDjKYYOfF4>

## From Product to Product-as-a-Service

<https://medium.com/swlh/from-product-to-product-as-a-service-37baed471cd6>

## What is Product-as-a-Service (PaaS)?

<https://www.firmhouse.com/blog/what-is-product-as-a-service-paas>

## What is the Product-Service System and what is its relationship to sustainability?

<https://www.mjvinnovation.com/blog/what-is-the-product-service-system-and-what-is-its-relationship-to-sustainability/>

## Why manufacturers are becoming service providers

<https://www.raconteur.net/why-manufacturers-are-becoming-service-providers/>



# Circular Business Models 1 - Types of Product Service System

[https://www.youtube.com/watch?v=QAWJLu0d6\\_I](https://www.youtube.com/watch?v=QAWJLu0d6_I)





# LEARNING CIRCLE



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