Innovative asset finance for advanced services

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Introduction

Manufacturers develop advanced services to create competitive advantage, with payment based on performance or outcomes (Schaefers et al., 2021). Advanced services necessitate a variety of changes to manufacturers' business models (Baines et al., 2020), including the 'revenue model' (Kindström and Kowalkowski, 2014). While the revenue model deals principally with how value is captured, it is closely coupled with asset financing (how assets are funded and by whom). Traditional approaches to asset financing, such as the outright purchase by customers are inappropriate for advanced services and instead innovative approaches are required (Kamp and Gil de San Vincente, 2019). In particular, the development of innovative financing is likely to necessitate a multi-actor perspective (Kortmann & Piller, 2016). The aim of this study is to investigate multi-actor approaches to developing innovative asset finance for advanced services.

Theoretical background

Access to finance is a key issue for the provision of advanced services (Perona et al., 2017). Advanced services involve both changes to the basis for payment and ownership of assets, with the manufacturer retaining ownership of the asset and charging the customer based on usage (Spring & Araujo, 2009). Increasingly, finance providers work with manufacturers to support them in offering advanced services (Kamp & de San Vincente, 2021). Collaborating with a finance provider can help to speed up market entry since there is less requirement for internal sources of asset finance (Gebauer et al., 2017).

Some larger manufacturers have also set up subsidiaries to provide asset finance (captives). These can help to overcome the barriers to accessing finance from external sources, which is especially prevalent in smaller and mid-size firms (Angilella & Mazzù, 2015). Indeed, manufacturers may struggle to raise funding for advanced services from banks, who lack sufficient knowledge about earnings from these contracts.

To explore these issues, the research questions in this study are 1) how can innovative asset finance facilitate the provision of advanced services? 2) how can innovative asset finance approaches by captives and finance providers be distinguished?

Research methodology

The study uses a multi-case design, including interviews with nine managers from nine firms who have expertise in innovative asset finance for advanced services. The cases encompass four manufacturers, three finance providers and two specialist intermediaries that provide platforms and risk management methodologies to help facilitate innovative asset finance. In addition to interview transcripts, we have detailed secondary data about each firm's activities. Data were analysed thematically to establish the findings.

Findings

The study shows that first, financial providers can potentially enable both customers and manufacturers to remove assets from their balance sheets. Thus, a finance provider buys the assets and take on some of the operational risks. However, finance providers' lending does not normally encompass operational risk (but credit risk) and they may lack the processes and systems to manage such a business model. In these circumstances, specialist intermediaries may be able to assist by providing remote monitoring of product usage to help substantiate the revenue stream from a portfolio of advanced service contracts.

Second, financial regulations and contract risks mean that a revenue model is needed that comprises both fixed and variable payments. While there may be a minimum (fixed) payment, it is this variable element that is challenging to finance since the finance provider is dependent on the manufacturer maintaining performance outcomes. Manufacturers may be able to evidence these outcomes through having historic usage and payment data for existing advanced service contracts. Moreover, by pooling variable payment risks from multiple contracts, finance providers can smooth the peaks and troughs of variable payments.

Third, captives are particularly valuable to enable advanced services as they enable a more insightful understanding of risk profiles associated with manufacturers' assets. However, there are relatively few manufacturers with captives making this a relatively limited option for most companies.

Theoretical and practical contributions

The study's findings are tentative at this stage but support much of the nascent literature around this topic. For example, traditional sources of asset finance are limited, and innovative approaches are required (Kamp and Gil de San Vincente, 2019), such as using digital technologies to monitor contract performance. In this regard, a multi-actor perspective seems key (Kortmann & Piller, 2016), including the involvement of non-captive finance providers and specialist intermediaries, who can collect and manage data to help all parties understand product usage. While solutions to asset finance are elusive, if they can be found, it could have major implications for the expansion and viability of advanced services.

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