

# THE RISE OF “AS-A-SERVICE” MODELS



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Launched in March 2020 by the Group Innovation Department, the Observatoire des Tendances offers a synthesis of analyses and case studies on the transformations at work in the financial sector. This initiative has made it possible to decipher the major transformations in uses and markets impacted by the Covid crisis. Over the course of eight editions, the Observatoire gave the floor to Société Générale Group experts to share their understanding of trends and developments in the financial sector, through the prism of digital.

Three years on, some trends have strengthened to reach full maturity, while others have lost momentum or even disappeared. Others have emerged to give rise to new uses. It is this ongoing transformation that the new editions of the Observatoire will address, by sharing the points of view of the Group’s experts, as well as those of our partners.

## SUMMARY

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PAGE 3

### **DEVELOPMENT OF THE EVERYTHING-AS-A-SERVICE MODEL**

---

PAGE 8

### **ENABLING B2B EQUIPMENT VENDORS TO SHIFT FROM CONSUMPTION TO USAGE ECONOMY**

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PAGE 11

### **DECATHLON’S CIRCULARITY MODELS**

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# DEVELOPMENT OF THE EVERYTHING-AS-A-SERVICE MODEL

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In a modern age, where digitalization is ubiquitous, the processes for acquiring goods and services have evolved considerably. Traditional purchasing paradigms, which involved physical possession or long-term service commitments, have gradually given way to a more flexible approach. This is where the concept of «Everything-as-a-service» (or XaaS) emerged. This term was born following the emergence of numerous cloud-hosted services such as Software as a Service (SaaS), Platform as a Service (PaaS) and Infrastructure as a Service (IaaS).

The XaaS model is not limited to online services, and also concerns physical sectors such as Uber or Lyft, which offer Transport as a Service, making a transport service available to consumers via a mobile application. The XaaS model enables consumers to switch from owning goods or services to using them. Companies using this type of model very often have subscription or pay-as-you-go models.

More and more companies are turning to XaaS to power and grow their businesses. The global XaaS market is currently growing at a compound annual growth rate of around 26%, and experts predict that this trend will continue until at least 2025.<sup>(1)</sup>

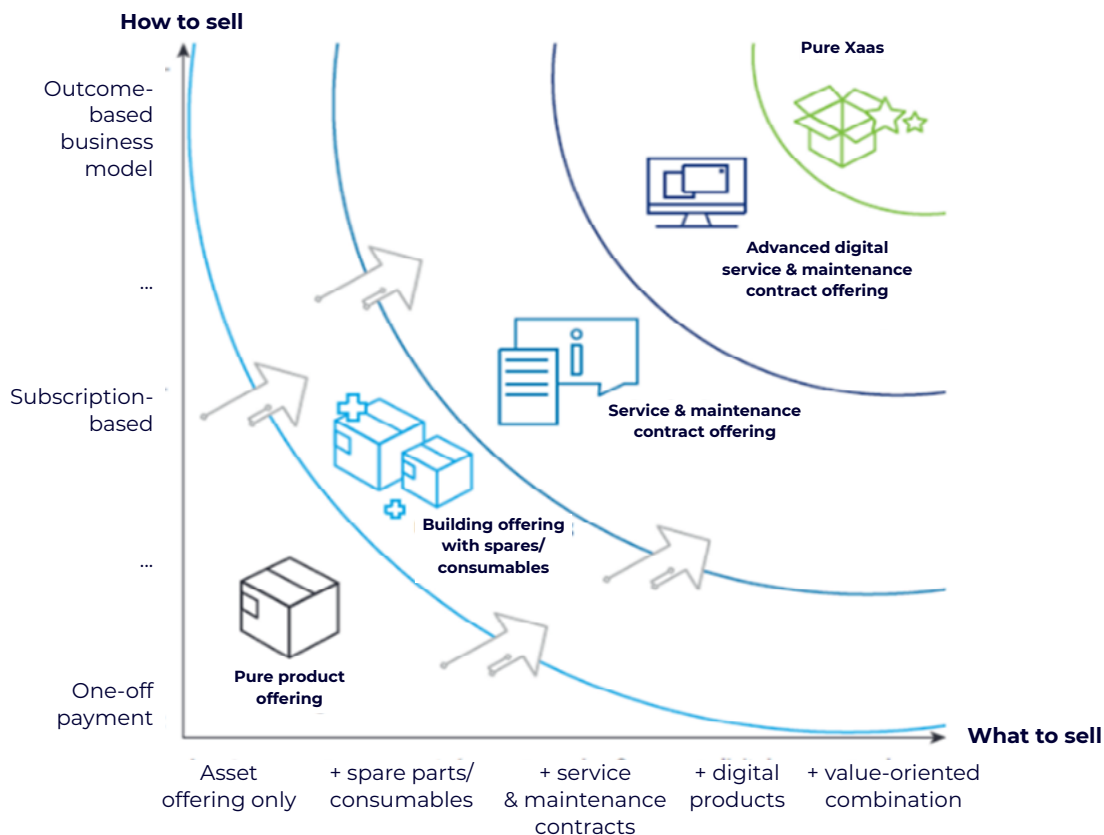
The graph<sup>(2)</sup> below represents the evolution from a traditional product sales model to an «As-a-service» (XaaS) model. Initially, the company sells a product in return for payment of the full price.

There is thus a transfer of ownership from the company to the consumer. The more services and additional products are added, the more we move towards an «As-a-service» model. The company retains ownership of the product but offers higher value-added combinations of products and services on a subscription or pay-per-use basis.

The most common business model for XaaS is subscription. This model enables customers to pay a fixed monthly fee for ongoing access to all a company's products and services.

A study by UBS estimates that the subscription model market is worth \$650 billion in 2020 and could reach \$1,500 billion by 2025, representing an average annual growth rate of 18%.<sup>(3)</sup>

**The evolution from a traditional product sales model to an «As-a-service» (XaaS) model.**



(1) XaaS : Le modèle Anything as a Service (avec 10 exemples de catégories) (kinsta.com)

(2) Deloitte\_Equipment-as-a-Service.pdf

(3) Investing in digital subscriptions, UBS (2021)

**THIS MODEL IS VERY POPULAR WITH COMPANIES TODAY, MAINLY DUE TO:**

- **High gross margins.** According to a KeyBanc study on 100 software companies, the median gross margin on the subscription model is 77% in 2021<sup>(4)</sup>
- **This provides a predictable and stable source of income for businesses.**
- **It allows companies to maintain more proximity with their customers,** which allows them to anticipate their future needs, naturally leading to greater satisfaction and consequently retention in the medium and long term.
- **The subscription format is a way for a company to be agile in its value proposition,** which makes it possible to cope with changes in demand and to offer personalization in the service provided to each customer.

**THERE ARE ALSO NUMEROUS ADVANTAGES FOR CONSUMERS:**

- **A financial benefit** emerges, where consumers will be able to access a vast choice of goods and services within a single subscription, without having to purchase them, and de facto avoiding a substantial upfront cost.

- **Regular payment** also means ongoing engagement with the supplier of the good or service, which means the customer has direct and potentially more privileged communication.
- **The customer can return the good or unsubscribe** from the service at any time, ensuring total freedom in line with constantly evolving needs.

Although usage-based or subscription pricing offers flexibility, it also presents a cost management challenge. Companies must control their budgets to avoid paying too much or being caught off guard, particularly by the costs linked to monitoring consumer usage over time. It is also necessary to calculate the residual value of a company’s leased assets, in order to estimate their value when the fleet is returned to the owner, and to adapt subscription prices accordingly.

XaaS can also use other types of business model, the second most popular being pay-per-use, which can be broken down into two models: the customer pays in advance for a defined number of products or services, or the customer uses services for a cycle (often a month) and pays for the services used at the end of the cycle.

Main differences <sup>(5)</sup>	Pay per use	Subscription
ADVANTAGES	<ul style="list-style-type: none"> <li>■ Customers have more control over their spending and usage;</li> <li>■ Customers purchase only what is used;</li> <li>■ Net revenue per new customer requires less Sales effort than for the subscription model;</li> <li>■ Low barrier to entry for the customer, as there is no commitment to future payments.</li> </ul>	<ul style="list-style-type: none"> <li>■ Recurring, consistent and predictable income for the merchant;</li> <li>■ Continuous customer service;</li> <li>■ Automatic billing.</li> </ul>
POTENTIAL DISADVANTAGES	<ul style="list-style-type: none"> <li>■ Unpredictable income for the merchant;</li> <li>■ Merchants must do more to encourage new buyings;</li> <li>■ Gross margins are often lower than with subscription;</li> <li>■ For consumers who buy frequently, the model is not necessarily profitable</li> </ul>	<ul style="list-style-type: none"> <li>■ Consumers can easily cancel their subscription;</li> <li>■ Consumers are billed even if they don't use the product/service.</li> </ul>

(4) 2022\_kbcm\_saas\_survey\_10-20-22\_vF.pdf (key.com)

(5) Pay-as-You-Go vs. Monthly Subscription Billing: Ultimate Comparison (ccbill.com)

**Faced with this rapid market evolution, a number of tools are emerging that enable companies to move from «on-premise» or ownership models to «as a service» or usage models.**

**THESE SOLUTIONS, KNOWN AS «ENABLERS ARE COMPANIES THAT CAN EITHER:**

- **Facilitate the transfer from an on-premise model to an as-a-service model.** Solutions such as Ziqy, Lizee and Lokki enable retailers to develop a circular product or equipment rental model, as well as second-hand models. For example, Lizee has supported Gemo, Leroy Merlin and Leclerc with their models, while Ziqy has enabled the development of offers at Grand Optical and Carrefour, and Lokki at Boulanger and Picture.
- **Facilitating subscription management for this model:** SaaS software enabling companies to manage their XaaS models and create pricing policies. Zuora has supported Zoom, Microsoft and Sodexo in their subscription offerings, while Billwerk has supported Interflora. Logisense is dedicated to pay-per-use pricing and counts Garmin and Motorola among its customers.

**MANY ECONOMIC VERTICALS CAN ALSO OPT FOR AN «AS A SERVICE» MODEL, SUCH AS:**

- **Retail:** the subscription model is very widespread in this sector, whether through boxes (My Little Box, Blissim...) or DNVBs (Digital Native Vertical Brands), i.e. brands 100% on the Internet. These new players include 900. care and Les Petits Prôdiges in the eco-care sector, and Le Petit Ballon in the wine sector. These players offer no-obligation subscriptions to receive their products at home. Major retailers are also turning to this model, such as Decathlon, with its sports equipment rental offer (cf infra).
- **Entertainment:** Netflix and Spotify are perfect examples of this vertical. Where once it was necessary to buy a DVD to watch a film, or a CD to listen to an album in its entirety, it is now possible to access a vast catalog of music and films, for a monthly subscription fee.

- **Automotive:** The CaaS (Car as a Service) model enables companies to generate revenue from the life of the vehicle and its use, rather than a one-off income from its sale. It's a different model from leasing, as it allows consumers to obtain a car on a subscription basis, without the hassle of returning it, changing it or adding options. Among the traditional players in the sector, Fiat has launched a 500-euro-a-month subscription offer in 2022, enabling its customers to drive a Fiat 500. Other innovative players include Bipi, which offers a car subscription including insurance, servicing and maintenance, for a period of 1 to 48 months, and Drover, which offers a subscription with no deposit from the consumer, a 100% web-based customer path and also insurance, servicing and maintenance included.

- **Mobility:** MaaS (Mobility as a Service) is a new way of consuming mobility, simplifying and enhancing the traveler's experience. Rather than paying for the use of a vehicle (as in CaaS), users access mobility often through mobile applications that enable them to choose their various travel options, store their transport tickets or use a single account to pay for all their journeys. A good example is Citymapper, which enables users to obtain all the possible transport available in their city (bike, Uber, scooter, metro, bus, taxi...) as well as the associated prices, and which will suggest the fastest multimodal itinerary. Numerous major groups are developing MaaS strategies, such as Ayvens, a subsidiary of Société Générale via its stake in Skipr, or players like Upstream Mobility and Moovel, by Daimler. <sup>(1)</sup>

- **Equipment financing :** In EaaS (Equipment as a Service), as in the classic sale of a machine, the manufacturer makes the machine available to the user in return for payment, either by subscription or on a pay-as-you-go basis. The manufacturer remains responsible for maintenance, service, consumables, and spare parts. Innovative players include Linxfour, an Austrian company that enables companies to pay for equipment on a pay-per-use basis, and Fleet, a French company focused on IT equipment rental (computers, tablets, telephones). Banking players such as Société Générale Equipment Finance are also positioning themselves in this niche, thanks to an ecosystem of vendor partners (cf. infra).

(1) Le MaaS (Mobility-as-a-Service) : vers une mobilité plus

- **The financial sector:** BaaS (Bank as a Service) is the most widespread model. This is a «business model that enables any company to offer banking services to its customers, without having to obtain a banking license or develop a financial infrastructure”<sup>(2)</sup> (see 1st edition of the Observatoire des tendances). Banks are also developing numerous as-a-Service models, such as Identity as a Service, Data Analysis as a Service, Loan as a Service, which allows customers to use a third-party provider for their appraisals, etc.<sup>(3)</sup>
- **Many other verticals can be mentioned, such as insurance, tourism and fashion...**

The as a service model also has virtues for the environment and the circular economy. XaaS models generally enable companies to retain product ownership and lifecycle responsibility. Producers are encouraged to adopt circular business models, including sustainable circular design, intensification of use phases, maintenance, repair, reuse, remanufacturing, refurbishment and recycling.<sup>(4)</sup>

Circular business models reduce inefficiencies and create value for companies. Circular business models can range from simple, classic equipment rentals, whether for sports (Decathlon) or automobiles (Fiat), to time-limited rentals, particularly for specific customer groups such as children, who grow up quickly and therefore don't have the time to wear their clothes or shoes «all the way». A good example of the latter is Nike's Adventure Club initiative, a limited-time shoe rental subscription where the customer can either buy the shoes at a preferential price at the end of the rental period or return them. Returned shoes are either recycled or donated to families in need.<sup>(5)</sup>

(2) Banking as a Service : qu'est-ce que le BaaS ? (skaleet.com)

(3) What role for banks under 'everything as a service'? — CVA - Corporate Value Associates (corporate-value.com)

(4) Circular Economy with Everything-as-a-Service aka XaaS (thelimatechoice.com)

(5) La location et l'abonnement s'étendent aux articles de sport (ziqy.co)



**Alice BORDENAVE,**  
Head of Products & Solutions  
for SG Equipment Finance

# ENABLING B2B EQUIPMENT VENDORS TO SHIFT FROM CONSUMPTION TO USAGE ECONOMY

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New consumption models, now widely adopted in the B2C market, have started to impact the B2B market, with a request for usage and outcome rather than ownership, especially ownership of brand-new equipment. And these new consumption models are driving the change in solutions for equipment finance.



## THERE ARE MAJOR DISCREPANCIES BETWEEN SECTORS:

- **The Technology sector is well advanced**, with major OEMs already offering Software and or Hardware as a Service for many years to major corporations globally. The future of this sector is likely coming from Service Providers, who are rolling out multi-OEMs device management and migration to cloud offers.
- **Moving fast are the Medical and the Sustainable energy sectors.** In both, clients are increasingly seeking not only to rent the assets rather than own them, but also to link their payments to the actual use, savings or performance of the underlying solution. Sustainable energy can leverage on the absence of any legacy model to be more disruptive.
- **New consumption models are now also reaching Transport, Industrial and Construction assets sectors**, although these remain traditionally focused on ownership. The change in customer's behavior has been recently accelerated by connected assets and by the regulatory need to shift to electric or hydrogen-fuelled units, which are massively more expensive, with various technologies still under testing phase.

## IT MAY LOOK SIMPLE AT FIRST GLANCE, BUT THIS SHIFT IS A REAL CHALLENGE:

- **For our partners, the equipment manufacturers and distributors**, it has a massive impact on sales recognition and on cash management, as their revenues are now spread over several years rather than registered upfront. It also needs major cultural and organizational transformation.
- **For financiers, and SGEF in particular**, it means shifting from "classical" equipment acquisition financing, with credit risk on a client, secured by an asset with ownership transfer at the beginning or at the end of the contract; to a combination of credit risk, asset risk, volume risk and performance risk (of third-party maintainers or service providers for example). New needs are also arising from the ownership of the asset, such as asset monitoring, storing, logistics, insurance, etc.

**SG EQUIPMENT FINANCE HAS BEEN SUPPORTING OUR TECHNOLOGY PARTNERS IN THEIR AS A SERVICE OFFERING FOR MORE THAN TWO DECADES NOW, through indirect financing, relying on future cash flow generation and the quality of the underlying end-user. We are now working on the "move to cloud" revolution through innovative structures to meet the Service Provider's asset-light DNA and their requirement for sales recognition.**

- **In the Medical and Sustainable energy sectors**, SGEF is working closely with our partners, manufacturers or service providers, to design new financing solutions enabling them to conciliate their client's requirements with their own financial and operational constraints. Some examples include our long-standing partnership with Philips Medical across Europe and in the USA, or with leading laboratory equipment manufacturer Agilent. We also support Signify's offering of Light as a Service.
- **The Industrial and Transportation sectors** is benefitting from our track record built in shifting the other sectors to usage, boosted by SGEF's in-depth knowledge of these sectors and assets. However, we are facing here additional challenges with the technology uncertainty and the consolidation of the sector.

**Our vision at SG Equipment Finance is to be the worldwide partner for integrated equipment solutions, creating sustainable and positive impact for the planet. I believe we are right in the core of this mission when we help our partners, manufacturers, distributors, and service providers, to be successful in this journey to the Usage economy, thanks to end-to-end solutions**

 **SOCIETE GENERALE**  
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SG EQUIPMENT FINANCE IS A SUBSIDIARY OF SOCIÉTÉ GÉNÉRALE, IN CHARGE OF FINANCING CAPITAL GOODS FOR COMPANIES IN VARIOUS SECTORS: TECHNOLOGY, TRANSPORT, CONSTRUCTION, INDUSTRY, MEDICAL AND GREEN ENERGIES.

We support manufacturers and distributors of these goods by financing their customers and their sales. we are active in 24 countries, with teams based in Europe, the United States, Brazil and China.





**Laurence FONTINOY,**  
Global Head of Circularity  
at Decathlon

# DECATHLON'S CIRCULARITY MODELS

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Laurence has over 20 years' experience in the tech ecosystem, including 7 years as Marketing Director at Google Spain and Portugal, and as Marketing and Communications Director at eBay Spain.

Laurence holds a degree in Management Engineering from the University of Louvain and an MBA from IESE Business School. Laurence is also an entrepreneur, and has created WOOM, an AI-based startup specialized in women's health, which was acquired in 2022 by Apricity. Since early 2023, Laurence Fontinoy has been Global Head of Circularity at Decathlon International.

Consumer habits are changing, and the desire to have a positive impact on the environment is one of the most important criteria when it comes to using sports equipment. More and more people are questioning the idea of buying and owning new equipment, in favor of a more use-by-use approach.

Proof of this is also to be found on the business side, with the emergence of new players offering second-hand purchases rather than new products, such as Vinted, Back Market or Leboncoin.

Decathlon is strongly committed to this role, and one of its core values is: Acting with nature. In this context, the company relies on circularity to reduce its carbon footprint while demonstrating a viable economic model, and this is implemented by optimizing the lifespan of its products, as well as their recyclability.

#### By developing **4 FUNDAMENTAL BUSINESS MODELS BASED ON CIRCULARITY**,

Decathlon is committed to responding to changes in consumption patterns, while having a positive impact on the environment:

- **Repair:** Decathlon offers workshops dedicated to the repair of a wide range of equipment, including bicycles, textiles and rackets. Customers are also encouraged to help extend the life of products by providing spare parts. By 2026, Decathlon is committed to ensuring that 30% of products are repairable, and that 100% of these repairable products are actually repaired when necessary. By December 31, 2022, 66.5% of products considered repairable had been repaired.
- **Recyclability:** A system for recovering end-of-life products is being put in place, so that they can be recycled, then either resold through the second-hand model or reused as raw materials for new products.
- **Second-hand:** By December 2022, 44 countries will offer second-hand products from Decathlon. This has been achieved in particular through a «Buy-Back» program, which enables customers to sell back their sporting goods to Decathlon, after an online estimate or directly in store, then receiving a voucher for use at Decathlon or a direct payment into their bank account (in France since 2022). By the end of December 2022, this system had been rolled out in France (in-store and online), and in stores in Belgium, Spain and Portugal.

- **Rental:** Decathlon offers different types of rental solutions depending on the use of the products (seasonal, long-term). Rental business volume has reached 12 million euros in 2022 (vs. 6 million euros in 2021).

As of December 31, 2022, Decathlon has published its circularity figures: 1.75% of sales are circular worldwide (1.43% in 2021), 0.25% of global sales come from the second life of products, and almost 188,000 products are rented (short-term, subscription or long-term).

#### **HOWEVER, THE IMPLEMENTATION OF THESE NEW CIRCULARITY-BASED MODELS IS NOT WITHOUT ITS CHALLENGES.**

Constantly changing consumer needs, rapid technological evolution, and new manufacturing/repair processes mean that we need to be flexible and constantly on the lookout for these innovations. Managing the recycling chain represents a challenge that runs counter to the traditional production scheme, where processes are totally reversed.

The digital dimension also represents an important building block, where the transition to repair, second-hand, rental and recycling models requires skilful integration within existing tools. This means knowing how to manage condition and price estimates, rental shipments and returns, and payment systems online, and therefore remotely.

At the same time, the creation of dedicated spaces in physical stores represents a logistical challenge. This requires a strategic reorganization of the sales area to accommodate repair workshops, rental spaces, or even areas dedicated to second-hand or recycled products. The in-store experience must remain faithful to that which has always made Decathlon a success, while at the same time inspiring customers to embrace these new initiatives.

Through its various approaches to circularity, the development of Decathlon's product rentals is skilfully integrated into the XaaS model, with a Sports as a Service offering.

Indeed, the usage economy plays an important role at Decathlon, with a desire to transform its business model by accelerating the development of the functionality and usage economy. Decathlon is committed to offering its customers responsible, multi-faceted sports experiences, by promoting access to sport through the scaling-up of lower-emission services (second life, rental, repair).

**THE COMPANY IS ALSO BETTING ON CONSUMPTION THAT IS MORE FOCUSED ON USE THAN OWNERSHIP, REDEFINING ITS BUSINESS MODEL THROUGH 2 RENTAL OFFERS:**

- **Short-term rentals** (from several days to several weeks), offering flexibility in the use of equipment for outdoor activities such as winter sports, cycling or camping. In 2022, sales associated with short-term rentals represented €9m (vs €5m in 2021).
- **Monthly rentals** making equipment available on a subscription basis (e.g. golf equipment or body-building equipment). This type of rental can be considered for a minimum period of 1 or 3 months.

Rental model has generated €12m of sales by the end of 2022 (€6m in 2021). Ultimately, Decathlon would like to offer its customers a complete

rental experience (choice of duration, level of commitment, products).

While the implementation of new models oriented towards greater circularity brings its challenges, both technological and organizational, Decathlon has managed to surround itself with specialized players to implement its rental offers. Collaborations have been made public with Zuora, Lizee, Loki and Ziqy.

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**Decathlon's product rentals is skilfully integrated into the XaaS model, with a Sports as a Service offering.**

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From a broader CSR strategy point of view, Decathlon is committed to reducing its absolute CO2 emissions by 20% by 2026, based on emissions measured in 2021, notably by decarbonizing the company's activities, optimizing the offer and design of products that last over time, and scaling up circular business models (second life, rental, repair).

In the retail market, other French companies are also developing their sports equipment rental offer, such as Intersport with Intersport Rent for ski and snowboard rentals.



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