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Servitization: A Global Trends

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ABSTRACT

Manufacturers are transforming their businesses towards greater service dominance. The literature suggests that service provision can offer a means of differentiation and competitive advantage for manufacturers to operate in global, highly competitive markets. While much has been written about this transformation, there are relatively few studies of the detailed organisational design aspects of combining manufacturing and service operations within one organisation. This paper identifies the organisational design characteristics that are needed when a manufacturer seeks to increase its service provision. Using a longitudinal quasi-experimental design, we explore the organisational changes that took place as one manufacturer shifted to service provision. The paper illustrates how different organisational tensions emerged during the shift to services and how the service teams selforganised in response to these tensions, in advance of management's decision to re-organise.

KEYWORDS :

Introduction

Although they are in quite different sectors, many of the SMEs have very similar reasons for wanting to work with us on adding advanced services to their products. The most common reasons are:

- To achieve differentiation in a market which is dominated by much larger suppliers
- To overcome cyclical demand for products and associated peaks and troughs in cash flow
- To increase the long-term sustainability, and ultimately growth, of their business

These are challenges that I'm sure many SMEs face day-to-day. Servitization can help with all of these, by enabling companies to offer something different to their competitors and engage in long-term, revenue-based service contracts rather than one-off product sales.

Servitization isn't a guaranteed remedy and it's not a quick-fix, but we are finding that it can make a lasting difference in terms of sustainable revenue; the companies we have worked with in the past year are forecasting almost £2million in additional Gross Value Added as a direct result of adding services to their products.

What is SERVITIZATION

Servitization:

The process by which a manufacturer changes its business model to provide a holistic solution to the customer, helping the customer to improve its competitiveness, rather than just engaging in a single transaction through the sale of a physical product.

What is servitization?

• *Servitization* is the innovation of organisation's capabilities and processes to better create mutual value through a shift from selling product to selling Product-Service Systems.

- A *Product-Service System* is an integrated product and service offering that delivers value in use.
- A *Servitized Organisation* designs, builds and delivers an integrated product and service offering that delivers value in use.

The 5 Myths of Servitization

Basically, this term comes from equipment manufacturing (economists would refer to this as production of durable goods) and the move towards more 'added-value services' (another term I detest) to achieve customer outcomes better. So .... the literature says that firms add value by selling consultancy, integration, education, blah de blah... so this is the phenomenon called 'servitization'. In fact, some firms are earning more revenues from selling such 'services' than they are selling the equipment itself so this means more revenue. Some studies have shown that servitizing is difficult and while revenues may be high, profitability is low and some studies have shown that servitizing is so difficult that many have failed. I thought I'll pen down some of my thoughts on this.

Myth no. 1: Servitization is an extension of your company's offering so who better to do it than the original manufacturer right?

Myth no. 2: Servitization is about solutioning.

Myth no. 3: Service revenues and equipment revenues are different.

Myth no. 4: Servitization is 'wrapping services around the equipment

Myth no. 5: Servitization is not profitable because it requires more human resources and capability and that is just not scalable or easily replicable.

Role of the Servitization in Development

Services constitute over 50% of GDP in low income countries and as their economies continue to develop, the importance of services in the economy continues to grow.[1] The service economy is also key to growth, for instance it accounted for 47% of economic growth in sub-Saharan Africa over the period 2000–2005 (industry contributed 37% and agriculture 16% in the same period).[1]This means that recent economic growth in Africa relies as much on services as on natural resources or textiles, despite many of those countries benefiting from trade preferences in primary andsecondary goods. As a result, employment is also adjusting to the changes and people are leaving the agricultural sector to find work in the service economy. This job creation is particularly useful as often it provides employment for low skilled labour in the tourism and retail sectors, thus benefiting the poor in particular and representing an overall net increase in employment. [1] The service economy in developing countries is most often made up of the following:

- Financial services
- Tourism
- Distribution
- Health, and
- Education

The export potential of many of these products is already well understood, e.g. in tourism, financial services and transport, however, new opportunities are arising in other sectors, such as the health sector. For example:

- Indian companies who provide scanning services for US hospitals
- South Africa is developing a market for surgery and tourism packages
- India, the Philippines, South Africa and Mauritius have experienced rapid growth in IT services, such as call centers, back-office functions and software development

Conclusion

Factors such as the industry of operation, market structure and the basic structure of an organisation may have an impacton the organisational design to be pursued when servitizing. As some empirical

findings indicate, companies performing in certain industries seem to be able to transform themselves faster than others do, and therefore, comparative studies between different industries and organisations are highly encouraged. In addition, findings suggest that the integration between production and service units is one of the critical factors determining the success of servitization. Besides this notion, the study does not directly offer any suggestions on how to increase the level of integration between different units; therefore, there is a clear need for research that develops models for integration in servitizing manufacturing companies.

The growing body of knowledge in this area has pointed out the reasons and benefits for a servitization strategy in manufacturing. Contradictory to this, only a few research efforts have developed theoretical models, tools or suggestions on how to execute this transformation effectively. Based on a profound theoretical investigation, the study suggests phases for organisational design that are most appropriate in the early stages of servitization. We recognise that no organisational forms are permanent, but we believe that our results and findings can help managers with organisational design after the initial decision to servitize has been made.