

Moving Up The Value Chain: UK Manufacturing's Servitization Journey



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Where do I sit relative to my peers in terms of progress to servitization?

What specific outcomes are being achieved by other servitized manufacturers?

What are the capability requirements for me to successfully exploit servitization?

Introduction

This report answers these questions for UK manufacturers – providing key data points for companies considering whether – or more likely, *how* - to ‘servitize’ their business model.

Researched by *The Manufacturer* in partnership with Salesforce, ‘Moving Up the Value Chain: UK Manufacturing’s Servitization Journey’ is the second annual survey of UK manufacturing and the transition to new service-based business models.

The shift to sell services alongside physical product, and the availability of new tools to support growing product complexity, are encouraging manufacturers to embrace *servitization* to deliver greater customer value and achieve higher margins through recurring revenue streams.

Key findings

In the last 12 months there has been a 90% fall in the number of ‘servitization sceptics’ – those manufacturers not considering servitization. By contrast, there is now an overwhelming majority (72%) of the British companies we surveyed that are committed to servitizing their business model – with 41% having already done so. Of these ‘First Movers’, *over 72% will have achieved benefits from servitization by the end of 2017.*

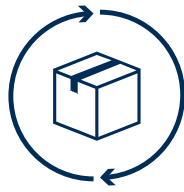
The success of these ‘First Movers’ is encouraging for the next wave of ‘Fast Followers’ as they ‘actively prepare’ to embark on servitization – almost 77% of these manufacturers yet to embark on servitization nevertheless expect to be benefiting from it by the end of 2018.

Three key considerations have driven this wave of business model transformation across the British manufacturing industry – margin growth, competitiveness, customer demand.

Manufacturers that have already servitized are 195% more likely to identify customer demand as an ongoing driver of servitization than companies yet to servitize. The evidence is clear: customer demand sustains servitization programmes.

This survey of 66 UK manufacturers shows that **servitized companies, with their increased focus on customer needs, are now creating a virtuous cycle of demand-led investment – in some instances they are 93% more likely to invest in future service demand** (see Fig 6).

Success has many parents – but this survey pinpoints a strong correlation between progress in servitization, exposure to exports, and confidence in technology-enabled competitive advantage (see Fig 1).



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What is servitization?

Servitization is a business model transformation for manufacturers - from a focus on products and production, to one focused on growing their service revenue streams. It requires manufacturers to find new ways to understand and then respond to customer needs. By shifting to more valuable and richer service-centric model, manufacturers can grow, create new revenue streams, increase margins and mitigate risks.

Successful servitization requires a customer-centric organization that can manage the processes of its customers while increasing revenues or reducing risks and costs. A deep understanding of the customer context is required to develop successful value propositions.

First Movers & Fast Followers

“

The Future is already here – it’s just not very evenly distributed

William Gibson ”

Our survey respondents are not representative of UK manufacturing. They are, however, representative of the most forward-looking, growth-oriented manufacturers in the UK.

The reader community of The Manufacturer, from which this survey sample was taken, are self-selecting.

Although we provide the full survey responses in this report, when it comes to analysis we have taken the further step of focusing on the two largest groups of respondents – those already servitized, and those actively planning to servitize.

Throughout the rest of this survey we refer to the first group as ‘First Movers’ and the second group as ‘Fast Followers’.

First Movers give unique insight into the challenges and opportunities of servitization *from the perspective of practitioners*. If you want to understand the future progress of servitization – it pays to look at those already doing it.

By contrast the Fast Followers best illustrate the challenges and opportunities for servitization either *in abstract*, or at least at a very early stage of implementation.

First Movers and Fast Followers agree on much – but their differences are instructive, and is where much of the insight from this report will be found.

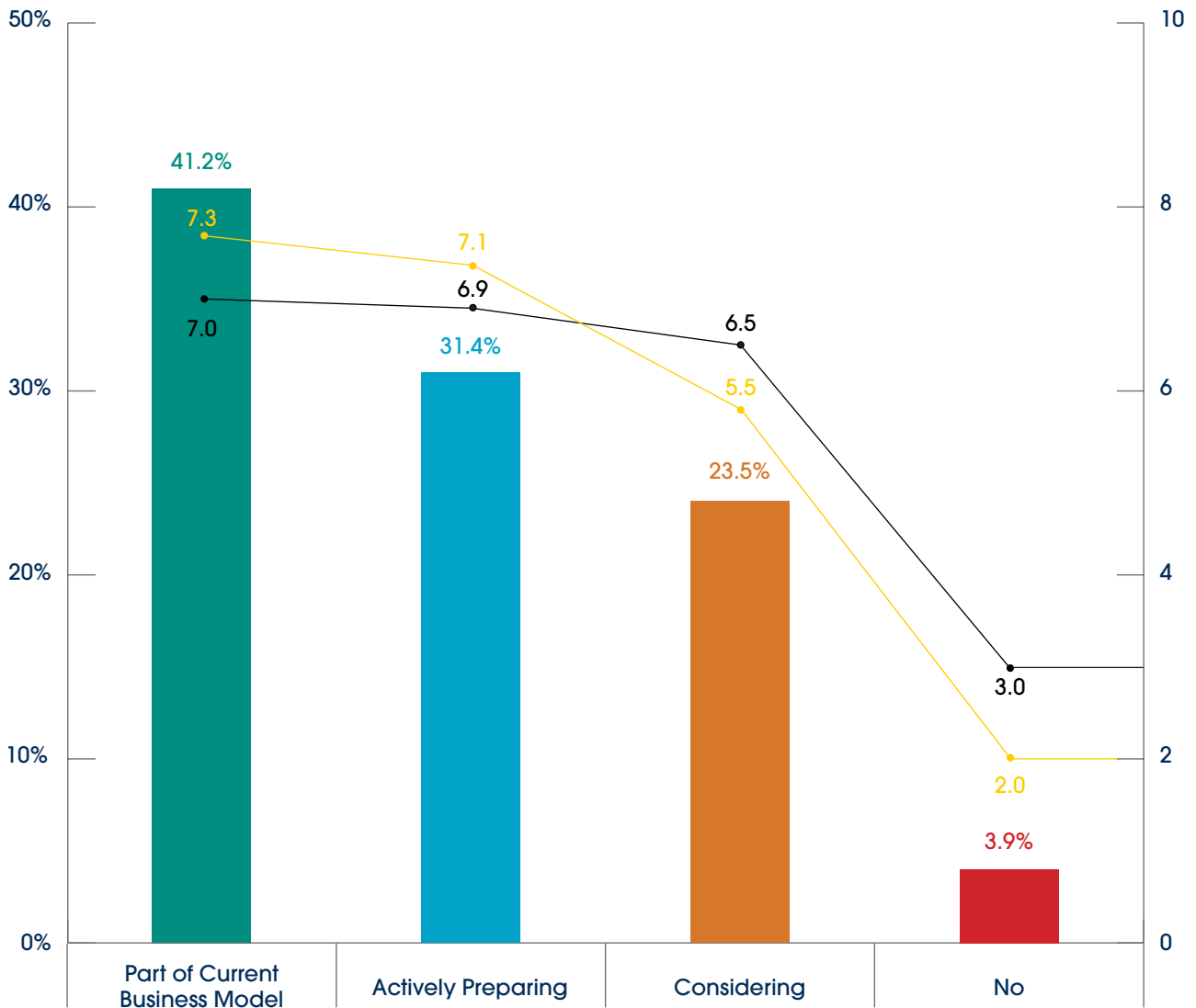
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Fig 1: Is Servitization part of your current business model?

Exposure to exports (0-10)

Use of connected technologies compared to competitors (0-10)



*Scale = 0-10 (0= low, 10 = high)

— Export Exposure*

— Connected tech use vs competitors*

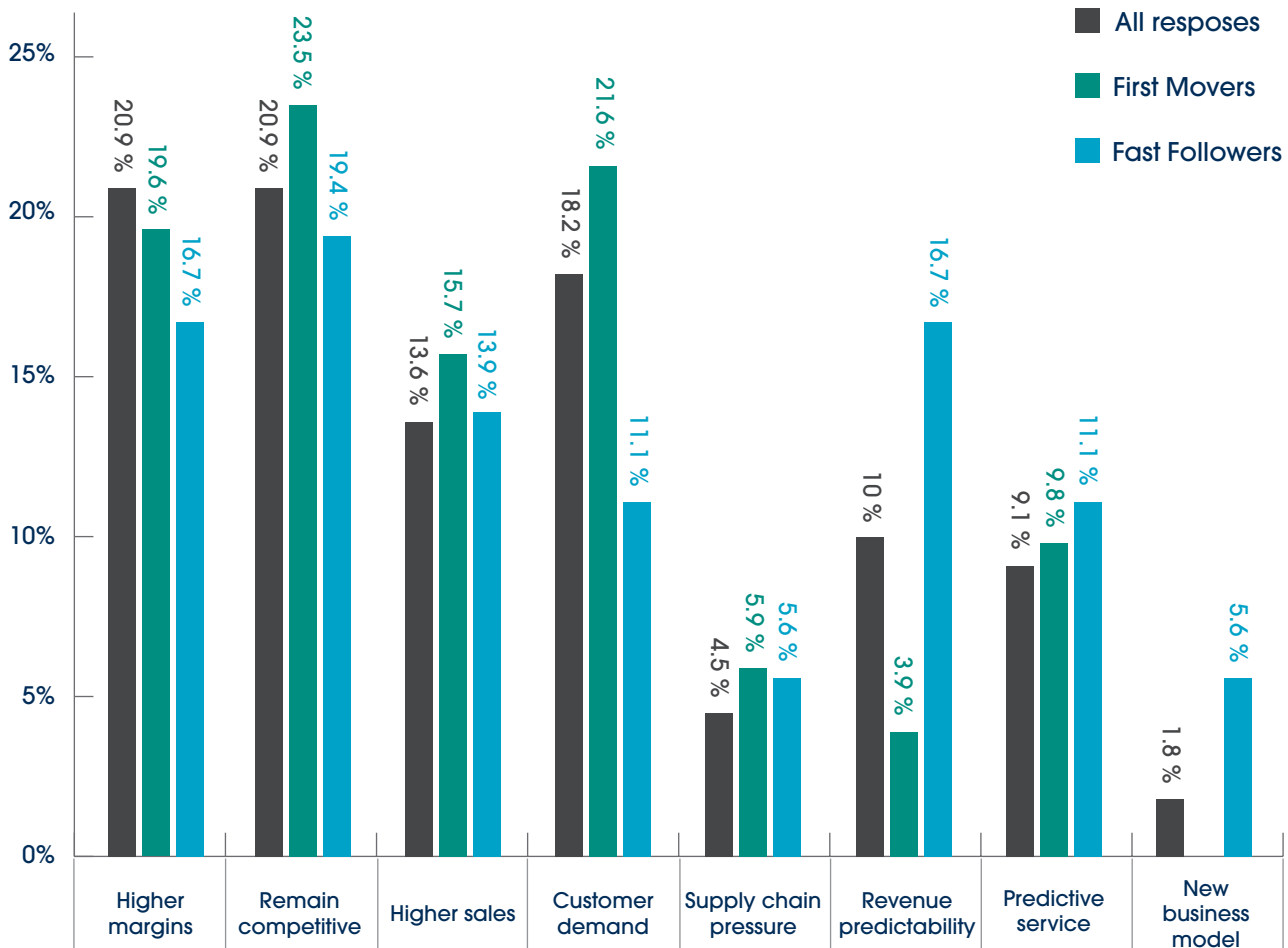
What a difference a year makes – in 2016 The Manufacturer reported that 46% of British manufacturers had yet to actively consider servitizing their business. That’s now down to less than 4%. This suggests that the gap between ‘product-centric’ and servitized business models is easily bridged.

Our survey also found that servitized business models highly correlated with exposure to exports, and the use of connected technologies. ‘First Movers’ – those 41% of surveyed manufacturers who had already servitized – were most exposed to exports, and most confident in their deployment of connected technologies.

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Fig 2: What are the drivers of servitization in your company?



On the face of it the key drivers for companies to servitize appear consistent – namely a desire to maintain competitiveness, achieve higher margins and respond to customer demand. However, dig a little deeper, and stark differences in outlook emerge.

First Movers (the companies that have already servitized) were 195% more likely to identify customer demand as a driver of servitization than the Fast Followers (the companies actively preparing to servitize).

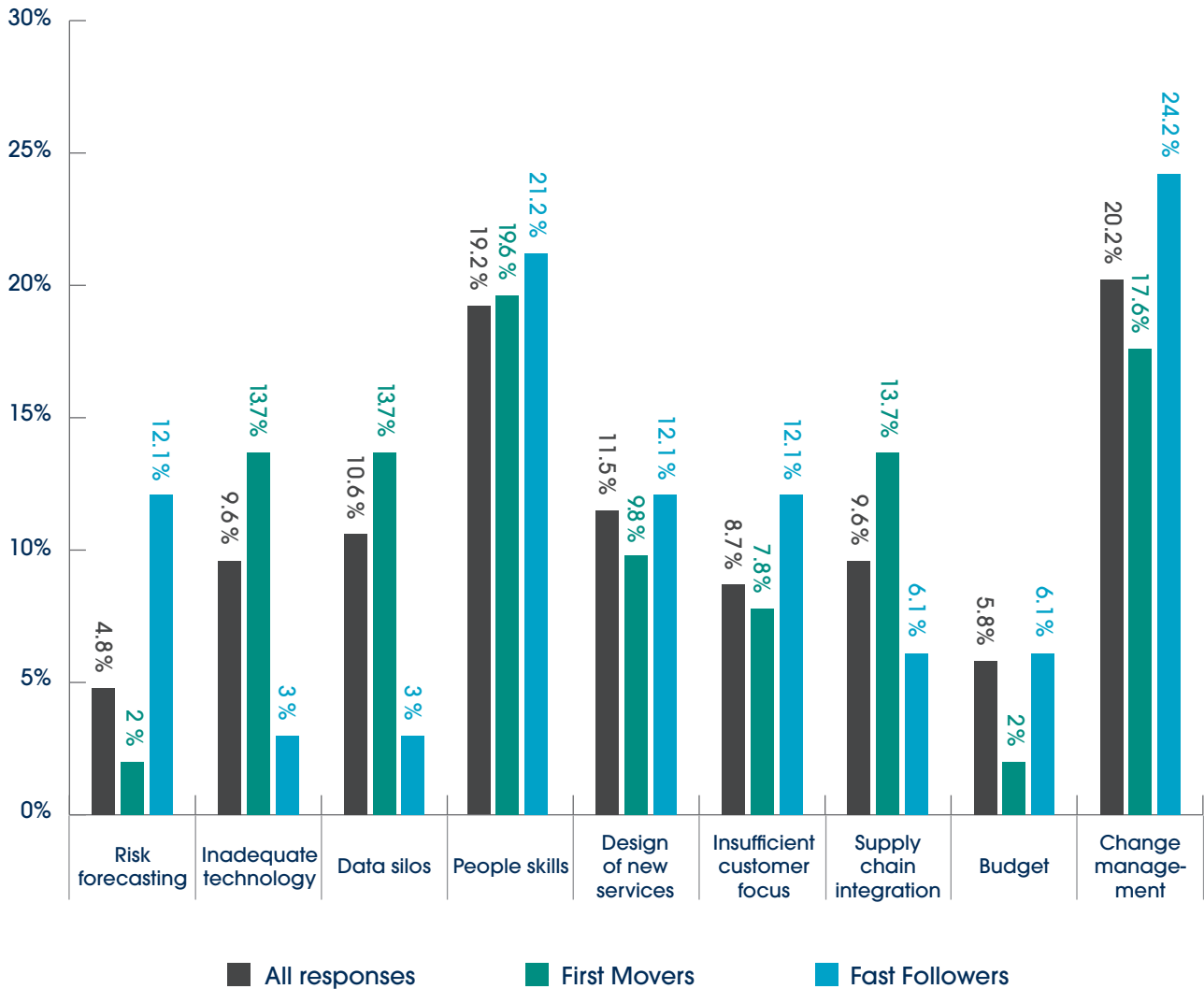
This suggests a driver critical to the success of servitization initiatives: customers like it when they experience it, and quickly come to demand it.

Conversely, for the Fast Followers yet to implement servitization – they were 428% more likely to identify revenue predictability as a driver to servitize.

Fast Followers seem more motivated by a desire to minimise risk – the risk of uncertain service costs (predictive service) and income (revenue predictability). This reflects a ‘financial perspective’ of whether to invest in a new programme, and contrasts with the priorities of First Movers who have already banked these financial outcomes – and who thus are much more likely to see Servitization as a prerequisite to remaining competitive.



Fig 3: What are the barriers to servitization in your company?



Last year resource constraints – people, technology, budget – were deemed to be the top barriers by 70% of surveyed manufacturers. That has now dramatically halved to 34.6%.

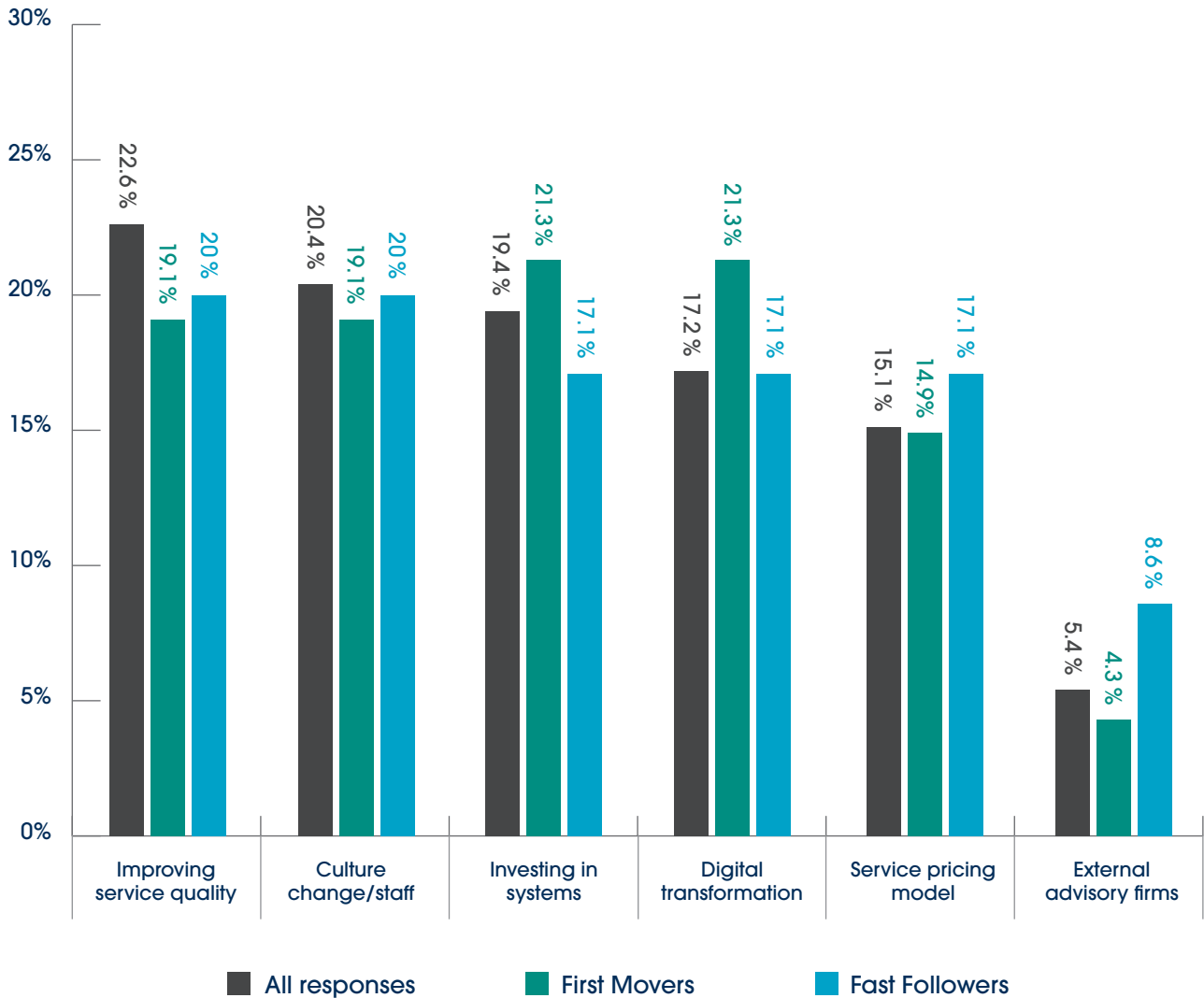
As with the earlier analysis of drivers of servitization, when it comes to the barriers there is a surface similarity: people skills and change management are common inhibitors across all survey respondents, Fast Followers and First Movers.

However, First Movers were over twice as likely (224.5%) to identify supply chain integration as a barrier to servitization as Fast Followers (and 142% more likely than the average of all survey respondents). This is to be expected.

The more a manufacturer makes progress in servitization – demanding increased visibility of, and access to, data across the supply chain – the more they will bump up against the constraints of their suppliers and partners. This is the kind of barrier that only becomes apparent when you are trying to breach it.



Fig 4: How is your company working to improve the progress of servitization?



Regardless of the inhibitors to servitization – as we saw from the first chart, it’s happening anyway. The question then is – *how?* Survey respondents are focused on culture change, investing in systems and improving service quality – but as before, when you look closer at the priorities of the manufacturers most actively engaged in servitization significant patterns emerge.

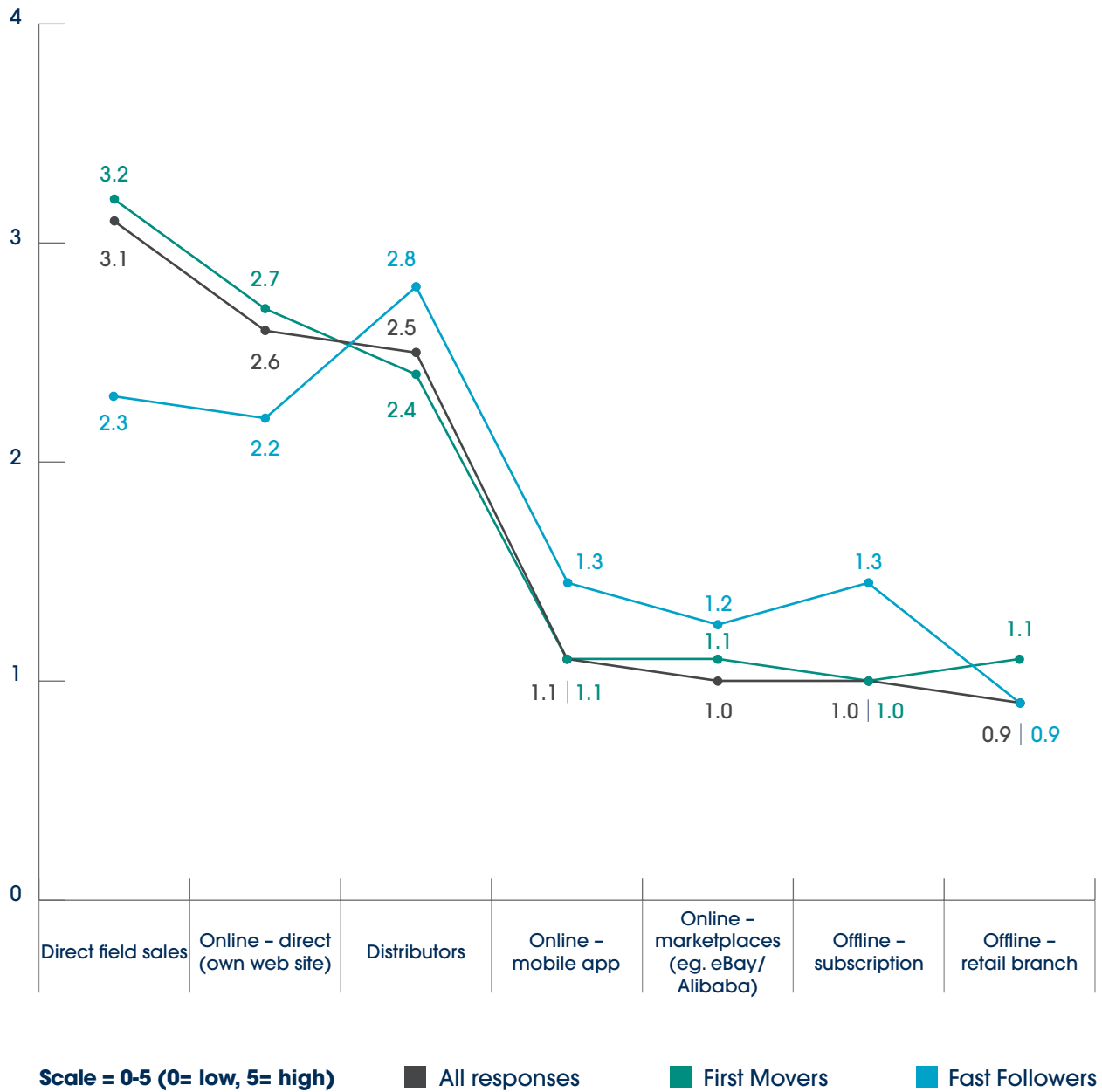
Awareness of the critical role of digital systems and transformation is greatest among those most advanced in their servitization journey.

First Movers are 24.5% more likely than Fast Followers to have identified IT systems investment and digital transformation as the key enablers of servitization.

Interestingly, there seems to be very little self-doubt among all respondents when it comes to their capacity to servitize. Barely $\frac{1}{20}$ of surveyed manufacturers intend to engage external advisory firms.



Fig 5: How important are the following sales channels for your business?

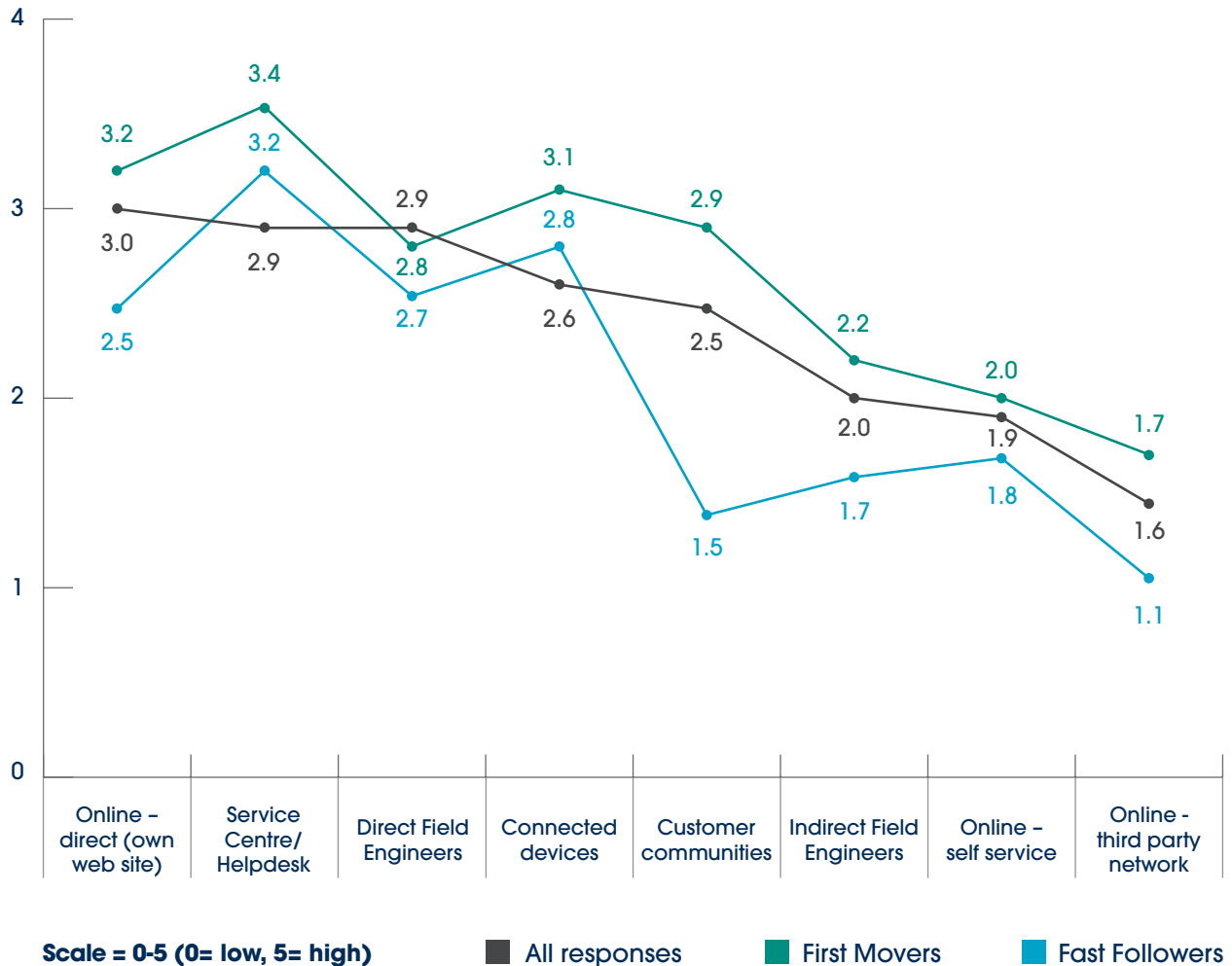


Companies that had already servitized were less reliant on distributors, and more geared to direct sales – whether online, or through their own field sales operations. This highlights one of the key aspects of servitization – a greater focus on maintaining direct relationships between manufacturers and their customers.

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Fig 6: Where do you expect to invest to meet future service demand?



The more servitized a manufacturer is, the greater their willingness to invest in meeting future demand across the specified options- First Movers are 22.7% more likely to invest across these channels than the Fast Follower group of respondents.

Across every channel, First Movers had more committed investment ambitions: 28% more likely to invest in own web site; 10.7% more likely to invest in equipping their staff with connected devices; 93.3% more likely to invest in building customer communities.

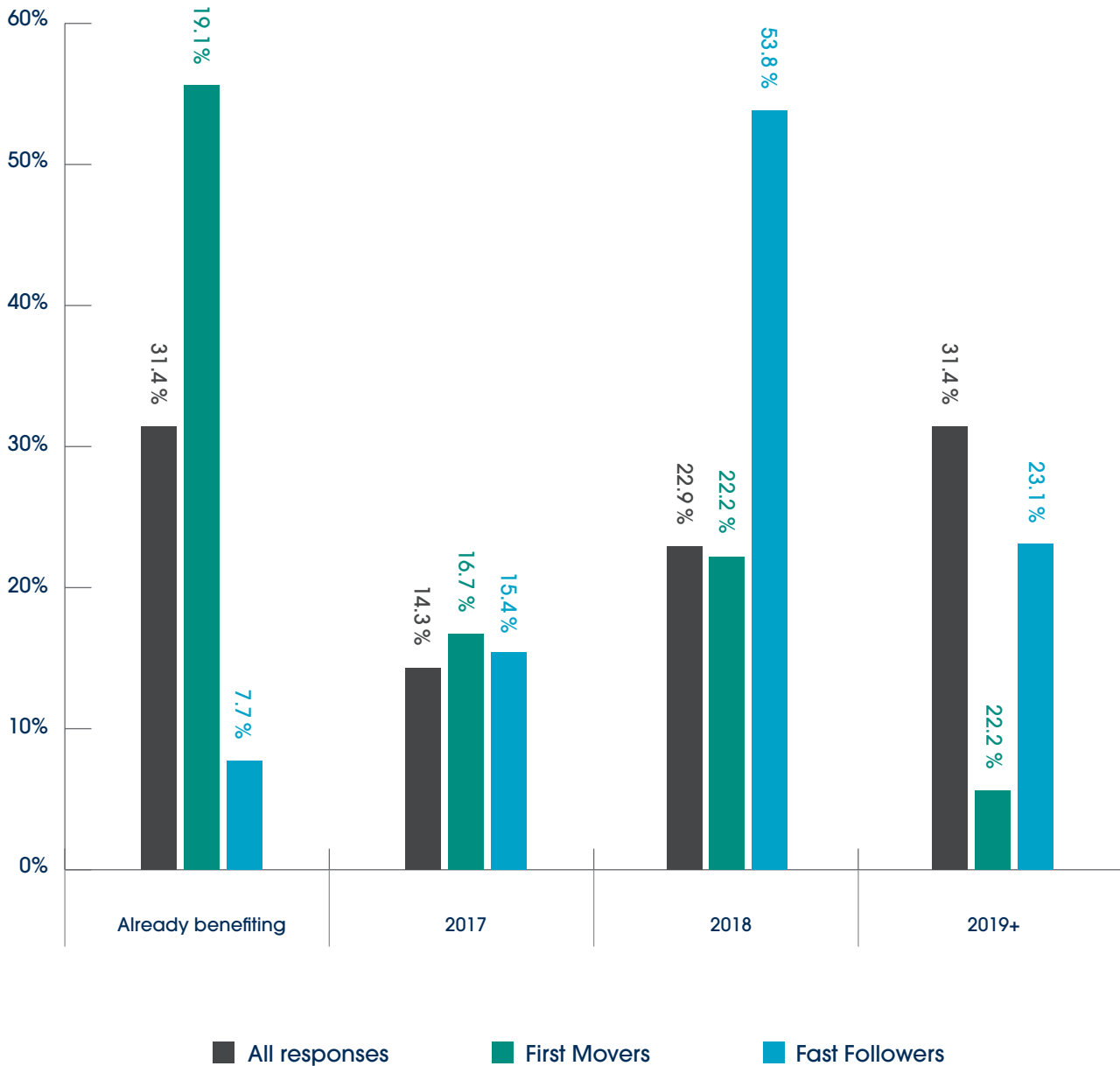
While all survey respondents, in whichever segment, indicate that investing in customer service centres is a top priority - First Movers are still 6.3% more likely to invest in customer service centres than Fast Followers.

Nothing builds a business case for investment quite like commercial success, and these results correlate strongly with the heightened customer demand experienced by First Movers that we noted in Fig 2 - as well as the results following in Fig 7.

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Fig 7: When do you expect servitization to benefit your company?



More than half of the manufacturers who've servitized are already benefiting, with a further 38.9% of First Movers expecting to realise benefits from servitization by the end of 2018.

Even among Fast Followers who have yet to implement servitization, 76.9% of respondents expected to see a return from their servitization agenda in the same timeframe.

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Executive Summary

This survey has revealed the very different ways that servitizing companies view their competitive landscape: how servitization has helped their business, what constrains them from realising more benefits, and where they see the most opportunities to create value in future.

For companies seeking to benchmark themselves against their most servitized peers, and for those organisations looking to better understand the business case for moving forwards with servitization, this summary highlights the distinctive features of the most servitized UK manufacturers.

Four Traits of Servitized Companies

1. **Confident Technology Users:** most aware of the enabling role of digital systems, most likely to invest in technology, and most likely to view their use of technology as being more effective than their competitors.
2. **Greater Business Complexity:** most likely to engage in cross-border commercial activity, requiring greater administrative and financial resources.
3. **More Direct Sales:** greater ownership of the customer relationship, thereby retaining a greater share of customer value.
4. **Demand-Led:** Customer demand disproportionately drives companies' servitization programmes; servitized companies are most aware of, and most focused on mitigating, supply chain whiplash.

A Manufacturer's Perspective

Dawn Enderby - IT Relationship Lead, Manufacturing & Supply Chain, Jaguar Land Rover

Why is servitization part of your current business model?

Scale of JLR can create challenges in certain areas, such as forging very close, deep relationships with customers. Most vehicles are bought via JLR's extensive dealership network, which represents an additional layer separating JLR and its customers. Servitization is definitely on our agenda, with pockets of activity in certain areas. The aim is for servitization and its insights to be feed end-to-end through the business but we're not quite there yet.

How do you expect servitization to improve your competitiveness?

Allow JLR to close the gap between itself and customers through vehicle technology and gain greater insights into how our products are being used, by who and when.

What is the biggest barrier to servitization in your organisation, and how will you overcome it?

The sheer size of JLR. Trying to capture every possible data point we could would create a tremendous volume of information to process and analyse. We are looking to overcome this by first focusing on the low-hanging fruits, the quick-wins, and knowing things are being done in the right way to roll-out a wider programme.

How well understood is servitization within your executive management team? What was the 'eureka' moment?

There is an awareness, but it's only part of the package. Servitization is wrapped in other JLR layers, such as 'Customer First' - which servitization obviously feeds into. There's been a gradual build-up of awareness, rather than one 'eureka' moment. It was more to do with the opportunities being missed because we weren't close enough to our customers, something we're addressing.