Aston Business School

Servitization impact study:

How UK based manufacturing organisations are transforming themselves to compete through advanced services

Executive summary

According to media reporting on government data the UK manufacturing base is on its knees. Negative stories about falling production levels and employment, the balance of payments and overall GDP suggest that the outlook for this sector is a gloomy one. After the passing of Baroness Margaret Thatcher, the news cycle around this issue has only intensified. However a very different story is running in parallel to this which could change manufacturing's complexion entirely. A new and alternative services sector is evolving which is rooted in technological competences of manufacturing. This is showing strong growth opportunities, with a number of companies exploiting this strategy to create new and resilient revenue streams. This interplay between manufacturing and services may not be immediately apparent but, in truth, they are already coming together in a way that is re-shaping the future of UK manufacturing. It's a process identified in this report as Servitization.

What is servitization?

Servitization is the concept of manufacturers offering services tightly coupled to their products. It's about moving from a transactional (just sell a product) to a relationship based business model (delivering a capability) featuring long-term, incentivized, 'pay-as-you-go' contracts. Examples include Rolls-Royce offering TotalCare on gas turbines for their airline customers based on a 'fixed dollar per flying hour'; Xerox delivering 'pay-per-click' scanning, copying and printing of documents; and Alstom Train-Life Services supporting Virgin by assuring the availability, reliability and performance of their Pendolino trains on the West Coast Mainline.

After speaking to 33 key executives from 28 leading organisations that have 'servitized', we have identified four key findings:

1. **Servitization promises sustained annual business growth of 5-10%.** The services model triggers product and process innovations, powered by technology, which results in significant year-on-year growth with both new and existing customers. In time, with maturity, this diversification impacts on business resilience, with revenues from products/services typically split 50/50.
2. **Customers of Servitization are reducing costs by up to 25-30%.** Leading adopters of technology-led services are lowering their own costs while driving business growth in their own services to their customers. Companies that have become customers of Servitization have also been able to improve their financial structure, risk profiles and efficiencies around asset management.
3. **Servitization can deliver resilience and growth to the UK economy.** Using technology to drive new service offerings gives manufacturers a new commercial viability to exploit, and offers significant potential for both the regional and macro-economies. Services are bringing them closer to their customers, building high entry barriers for competitors, and positively impacting environmental sustainability.
4. **Adoption is inhibited by a lack of awareness.** The promises of Servitization are fragile, and need to be nurtured while our understanding develops. Businesses and policy-makers must therefore help create a shift in culture, creating the skills; contracting structures; governance; risk management mechanisms and financing systems that will allow companies to deliver services while building their capabilities to innovate technology along the way.

The servitization model offers an 'alternative way' for industrial strategy in the UK. Industrial operation is becoming increasingly sophisticated and services should no longer be treated with the 'either-or' logic of the past, rather as an addition to existing practices. As a means of competing with cheaper overseas production costs it may be vital to the future of UK manufacturing. But a shift in mind-set, organisational structures and operations is certainly required, and this extends to the way in which GDP statistics are collected and reported. This is to facilitate a move away from the over simplistic view the reported statistics portray that 'manufacturers make things and services do things for us'.

If properly embraced, servitization can create longer term relationships between suppliers and customers, built on trust and delivering more balanced and sustainable growth across the UK economy. But with growth in the manufacturing sector almost stagnant[1] and even the long-term competitiveness of services being questioned, the time to act is now.

[1] The index of manufacturing fell by 1.4% in February 2013 when compared with February 2012., as published by the Office for National Statistics' 'Index of Production 2013'

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