



Upward tendency for adding services to physical products

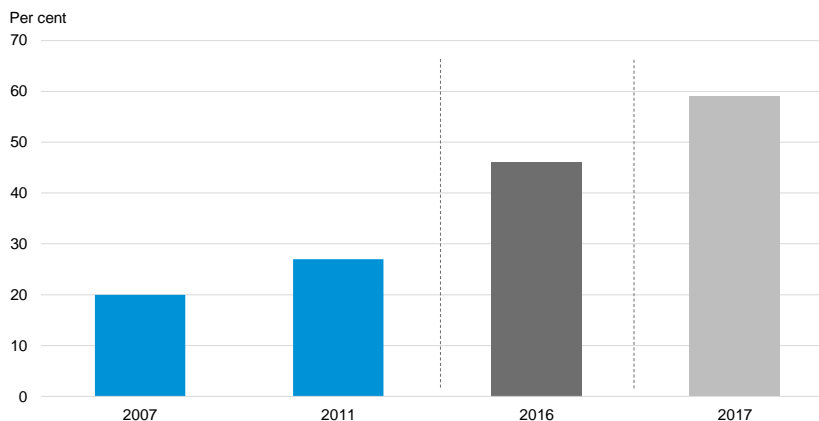
More and more manufacturing companies add services to their physical products. In ten years, the share of manufacturing companies adding or integrating services in their products has tripled. Servitization can lead to huge competitive advantages and additional sales – and the potential is enormous, according to DI.

Services are added to the sales of physical goods

Manufacturing companies add services to their physical products. In fact, a review of researches carried out between 2007 and 2017 shows that the amount has tripled in ten years – from approx. 20 to 60 percent. Moreover, a new study from the European Commission (2018) shows that the share of servitization amongst the Danish

Danish manufacturing companies sells more and more services

Share of manufacturing companies adding og integrating services to their prodcuts



Sources: 2007- and 2011-numbers: University of Cambridge: "The servitization of manufacturing: Further evidence" from July 2011
2016-numbers: DI's business panel, 437 responses in June 2016
2017-numbers: CBS "Servitization in industrial firms: Mapping and analyzing the Danish service landscape", December 2017
The CBS numbers include raw material extraction, manufacturing industry, building and construction.

SMEs is 70 percent. This places Denmark in the top of the ten reviewed EU-countries.

A study from 2017 carried out by Copenhagen Business School shows that 59 percent of the manufacturing companies also offer services. A DI study from June 2016 showed that some 45 percent of our members within manufacturing did add services to their products. An early study from University of Cambridge showed a share of 20 percent in 2007. The studies paint a picture of Danish companies increasing their sale of services and now holds a strong position within servitization.

Ten years tendency of goods and services increasingly melting together

During the last ten years there has been an upward tendency for Danish manufacturing companies to add and integrate services to their physical products. Even though, the tendency is based on different studies, which are not directly comparable, the development is so significant that it strongly indicates an increased use of services as additional sales to the manufacturing companies' physical products – so-called “Servitization”.

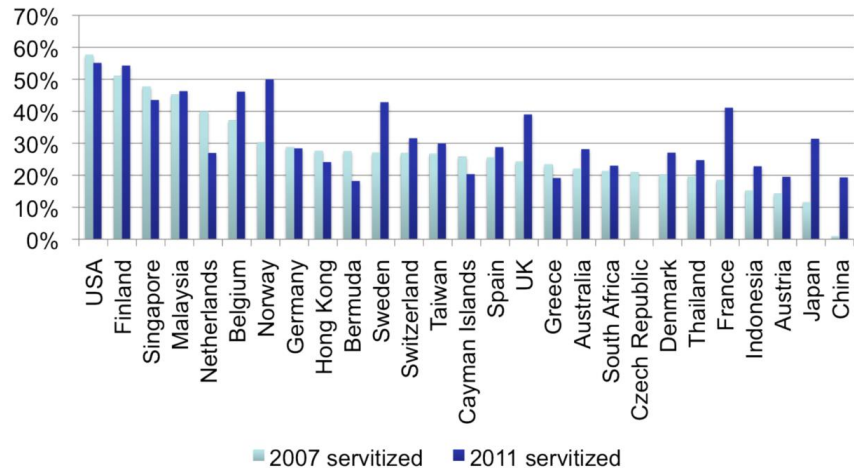
“Servitization” can be used as a competitive parameter as companies can easily differentiate their products from their competitors' by adding services. Furthermore, the services also enable an increased turnover through additional sales to the customers.

Adding services is an international phenomenon, but the U.S. tops the list

Servitization is growing

An international study from University of Cambridge (July 2011) shows that the manufacturing companies in several countries offer services to a relatively large extent. In most countries the number of companies making use of services increased from 2007 to 2011. American companies top the list and Denmark lags behind. However, other more recent Danish studies (Danish companies only) indicate a significant progress up to now.

Servitization across countries



Source: University of Cambridge: “The servitization of manufacturing: Further evidence”, January 2011.

DI study verifies international tendency

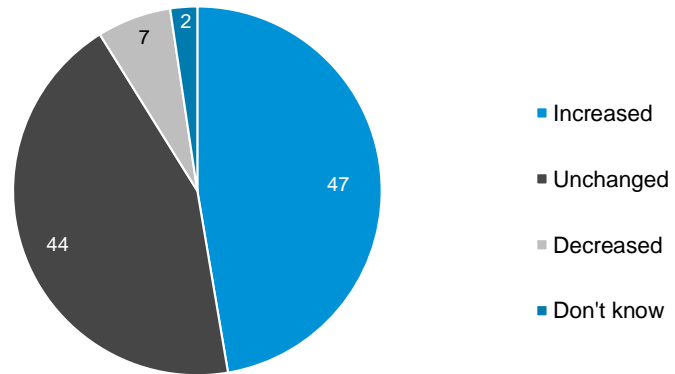
In a study carried out amongst the members of DI’s business panel (June 2016) a specific question was posed as to whether the companies offer services as part of the sale of a physical product. The study concluded that 37 percent of all responding companies sold services as a supplement to a physical product. However, focusing only on the manufacturing companies, the share was 46 percent. The study shows that the market for physical products and the market for services - or industry and service companies for that matter - are no longer divided but are melting together.

Upward tendency

Furthermore, almost half of the companies that confirmed selling services as additional sales to a physical product believe that the service part amounts to a larger share in 2016 than it did five years earlier. This result is well in line with the tendency appearing if you compare the results from 2007 and 2011 in the University of Cambridge study.

Does services account for a larger or smaller proportion than five years ago?

Percent



Source: DI's business panel, June 2016.

Study from CBS disclose an upward tendency

The most recent study of servitization in Denmark was carried out by Copenhagen Business School (CBS) in December 2017. This study shows a continued upward tendency from 2011 to 2017. CBS has studied 939 Danish companies within manufacturing, raw material extraction, building and construction. Fifty-nine percent of these companies offer one or several services via their homepage¹.

Servitization in 70 percent of Danish SMEs

The latest survey from the European Commission, carried out among ten EU-countries, shows that 70 percent of the Danish SMEs are servitized. That is the largest share among the countries represented in the survey, including Germany, Netherlands and France.

Many offer several services

Different types of services

The CBS study shows that 22 percent of the companies offer one to three services while 37 percent offer four or more services as additional sales to their physical products. In particular, customer service, advising, repairs, after-sales and maintenance are the most common services.

¹ CBS in cooperation with the Danish Industry Foundation: "Servitization in industrial firms: Mapping and analyzing the Danish service landscape", December 2017.

Most popular services

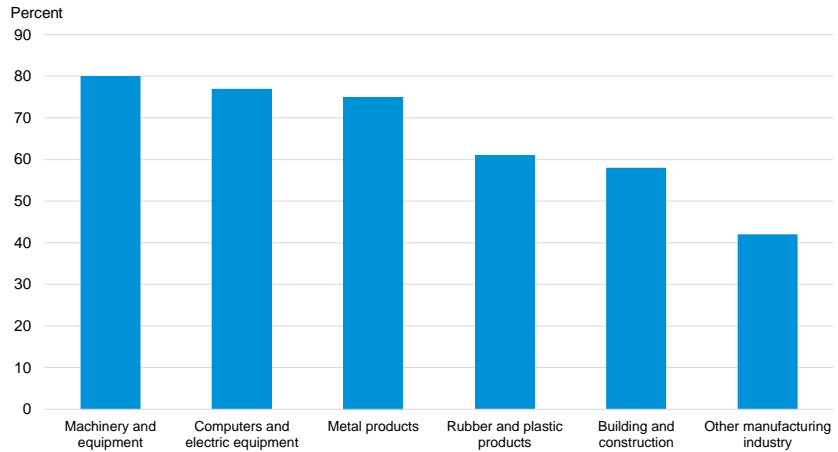
Customer service Information, documentation, transport, installation	75%
Advising <i>Overall advising and product and process advising</i>	40%
Repair services <i>Repair services and control of spare part storage</i>	38%
After sales services <i>Diagnosis, inspection, help-desk og hotline</i>	38%
Maintenance <i>Preventive and far-sighted maintainance, service agreements and updates</i>	36%
Research driven services <i>Design and development</i>	35%
Training <i>Product and process training</i>	22%
Clever services <i>Software updates, remote monitoring, system updates, data analyses and software agreements</i>	16%
Basic services <i>Services at sales, purchase, recycling and renovation</i>	15%
Solutions <i>Integrated solutions, systems and life cycle</i>	12%
Spare parts <i>Control of spare part logistics and storage</i>	12%
Warranty <i>Extended and/or broadened guarantee</i>	11%
Outsourcing <i>Full management of maintainance and control of the product</i>	10%
Usage agreement <i>Borrow, hire, lease, share</i>	6%
Payment agreement <i>Result agreement and pay per service</i>	2%
Financial services <i>Financial services</i>	1%

Source: Copenhagen Business School (December 2017)

Variation in the companies' use of servitization

It varies how actively the different sectors within manufacturing use services as additional sales to their products. Especially within machinery, electronic equipment production and metal industry a substantial part make use of services as additional sales.

Many added services within machinery, electric equipment and metal products
Share of companies adding or integrating services to their products



Source: CBS "Servitization in industrial firms: Mapping and analyzing the Danish service landscape", December 2017

Added services can give competitive advantages and secure additional sale

By adding services to their physical products, the manufacturing companies can make their products preferable to the ones of their competitors. Thereby, they gain a competitive advantage and a potential to increase their turnover through additional sales.

For instance, a machinery manufacturer can, apart from the sale of the machine itself, also sell installation of the machine, training of relevant employees, software updates and spare part replacement.

More than half of our exports can be sold at higher prices compared to our competitors

Danish companies are very good at adding value to their products enabling them to sell at higher prices than their European competitors. These so-called up-market products account for more than half of Denmark's total export of goods.

Services like expanded warranty, support, user training, collaboration on design, access to updates etc. give the companies the possibility to stand out from their competitors. Moreover, parameters like quality, design, flexibility and other custom-made solutions are also examples of competitive advantages which the customers are willing to pay extra for.