

# Looking to Servitize your Business?

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*In recent years, more and more manufacturing firms have started looking towards services as a way of developing and expanding their business. However, the way in which the firms have servitized differs - both in terms of which services they offer and the extent to which they have servitized. Perhaps characteristics of their market environments can shine some light on why this is the case?*

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According to a newly conducted study by Magneteg and Parkosidis (2019), there are indeed characteristics of the market environments of highly servitized manufacturing firms that appear to have impacted the ways in which they have servitized. Through a series of case studies, a number of conclusions were drawn about how different characteristics of the case companies' market environments may have caused them to offer the services that they do and subsequently become highly servitized.

The study first of all showed that competition appears to act as an external force on the industries of highly servitized manufacturing firms, pressuring firms within to servitize as a possible way of differentiating themselves from one another.

Second, the study showed that highly servitized manufacturing firms have customers with strong needs for equipment reliability, convenience and increasing efficiency, which may have caused them to start offering a variety of different services in order to meet these needs.

Third, the study concluded that the product acts as an enabler - making it possible to offer different services depending on the product's

combination of four traits: durability, complexity, connectivity and mobility.

Finally, the study found macro environmental trends to be an indirect influencer of servitization, by directly influencing competition, customer needs and product potential.

*“So? How can this study be used in practice when exploring the possibility of servitizing a business?”*, one might ask. The answer is that not only do these characteristics indicate why certain manufacturing firms become highly servitized, but they can also be used as a guideline - helping managers decide if their firm *can* and *should* servitize and, if so, *how* it should be done. In order for such an assessment to be conducted, the following questions should be considered:

1. *Is your firm acting in a mature industry characterized by heavy competition?*
2. *Are your customers demanding*
  - a. *High equipment reliability?*
  - b. *Convenience?*
  - c. *Ever-increasing efficiency?*
3. *Are the products your firm offers:*
  - a. *Durable?*
  - b. *Complex?*
  - c. *Connected?*
  - d. *Mobile?*

4. *Are there any macro trends you think may significantly impact customer needs, competition or your product, going forward?*

If the answer to the first question is “yes”, then servitization may be worth looking into further. Given the maturity and high competition in the industry of the analyzed firm, differentiation through product development may no longer be enough to stand out from the competition. As such, developing services could be an option.

Next, an assessment should be made about what specific service types may be relevant to offer. If the customers of the analyzed firm show any of the needs outlined under question two, then one or more of the following service types will be worth considering: *Financial services, compliance services, business development services, logistics services, reactive maintenance services, proactive maintenance services, upgrade & modernization services, customer support services, education services, installation services, optimization services, health monitoring services, remote access services, function-based services and outcome-based services.*

Given the results from question two, a manager exploring the possibilities of servitizing their business should then utilize the third question in order to assess whether or not the service types provided in question two are feasible to offer given the properties of the firm’s products. If the products have neither of the properties described in question three, then the choices of servitization will be limited. If, on the other hand, the products have all of the described properties, the possibilities are plenty.

Of course, a natural response from a manager utilizing the study’s insights to assess servitization possibilities may be “*Okay, but how future-proof is this? How do I know that these insights will be useful going forward?*” and that is where the fourth and final questions come into the picture. By looking at the trends affecting the firm’s customers, product and competition, a manager utilizing the results of this study can deduce whether or not the answers to the previous three questions will be true going forward.

In the report by Magneteg and Parkosidis, a demonstration is made in detail about how an assessment such as the one described in this article can be made in practice, by assessing the servitization possibilities of global door opening solutions provider ASSA ABLOY Entrance Systems. This assessment both resulted in the identification of unexploited opportunities, as well as the identification of service types that would require further product development to be feasible and service types that may be less relevant for the firm to offer due to a lack of support in the firm’s market environment.

Interested in all the details regarding which specific service types can and should be offered given a firm’s market environment, as well as more comprehensive coverage of the topics brought up in this article? Good! They can be found in Magneteg’s and Parkosidis’ full study titled “*Servitization in Manufacturing Firms: Exploring Possible Relations Between the Product-Service Systems offered by Highly Servitized Manufacturing Firms and the Market Environments in which they Operate*”