A Study on Servitization Strategy in the Industries of Hebei Province

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Abstract: Highly developed service industry is the display of modernization for a region or a country. Servitization in industries is the only way for developing countries to turn into developed countries, specifically by reinforcing service in manufacturing, developing producer service industry and knowledge-intensive service industry. So in the context of structure readjustment home and abroad, it is necessary to learn from the successful endeavors of the advanced regions and countries so as to guide the industrial enterprises of Hebei Province to a “smile curve” and reform their operating and profit-making mode.

Keywords: Service Brand, servitization, strategy

1 Introduction

In the 1980s, some economists in western countries held that the modern industry should not be categorized into traditional industry, but into new industry. One of the two reasons for this idea is that more and more service is involved in the manufacturing of products as intermediate input element, and in the consumption process a lot of complementary service is indispensable, industrial enterprises are shifting toward service industries.

2 The Necessity of Servitization Strategy in Industrial Enterprises

Today, among OECD members, the added value of service industry is more than 70% of their GDP. In 1990s, driven by economic globalization and informatization, global industrial structure began to transform from “industrial economy” to “service economy”, the percentage of added value of service industry in GDP had risen from 61% in 1990 to 68% in 2004. Led by the advanced countries, the service industry of developing countries at large is going into the period of rapid expansion. According to the statistics of the World Bank, in middle-income countries the percentage of added value of service industry in GDP rose from 45% in 1990 to 56% in 2005, some emerging industrialized countries had or almost had completed the transformation towards service economy. Figure 1 shows the change in percentage of added value of service industry of some countries.

Figure 1: Service Industry, value-added (% in GDP)
In recent years, service industry in our country has developed to some extent, but it has displayed a tendency of negative growth in relation to the overall growth of economy. The percentage of service industry fell from 41.7% in 2002 to 39.9% in 2006. International practices show that the percentage of service industry in the entire economy is closely related to the economic growth level, and it rises with the level of per capita GDP. When per capita GDP surpasses $3000, the tertiary industry will become the leading industry and rise continually. Per capita GDP of Hebei Province has exceeded this level, but due to the long-term dependence on development mode of economy and the rigidity of industrial structure, the secondary industry has long been dominant in three industries, especially the heavy industry sectors like steel and iron, chemical industries and equipment manufacturing industries which are stuck with the problems of high depletion, high pollution, low additional value and underemployment. Since "the eleventh five-year plan", though service industry achieved an average annual growth rate of 12.7%, and in 2009 service industry of the province accomplished added value 593.28 billion yuan RMB, ranking the seventh in the country. However, the percentage in entire economy was only 34.9%, far below the average level of the advanced regions and countries.

In a country of Keynesianism, a province which is dominated by traditional heavy industries will find it hard to achieve servitization. Faced with the shortage of resources and energy, this strong "manufacturing complex" is bound to hold back future development of economy.

3 Successful Practices of Other Countries or Regions Concerning Servitization of Manufacturing

3.1 The Successful Transformation of the U.S from the Kingdom of Manufacturing to the Kingdom of Service Industry
Since the 1960s, some countries, represented by the United States, have seen dramatic changes in their industrial structures and successively entered an era taking service industry as the lead. Though enterprises in the United States advocate free competition and rarely receive policy support, it is necessary to get encouragement and guidance of the government. The regional characteristic economy, industrial clusters and urban clusters have collected a variety of productive elements. In the course of transformation from the single manufacturing system to the multi-phase economic system, the Chicago urban cluster (Chicago-Naperville-Joliet) tapped and integrated the potential resources in commerce, financial service sectors, and the transport and logistics sectors, and it hence occupied the most forward positions in all fields and became the most diversified urban economic entity.

3.2 The Successful Transformation of Osaka, Japan
In 1990s, Japan gradually completed the transition to service economy, and the added value of service industry accounted for well over 60% of GDP. As the second largest economic center and the core city of Kansai, Osaka’s GNP was 41.75 trillion yen, a 1.1% increase over last year. In recent years, Osaka’s industrial structure is quite stable, and the percentage of agriculture, forestry, fishery and mining industry in the entire economic structure is low, below 0.1% while manufacturing is the major industry, accounting for 18% of the city’s national product. As a big city, Osaka still displays features of service economy. In 2007, the output value of service sectors was 33.04 trillion yen, 76.27% of the total output value of all industries. Among the service sectors, the most important are wholesale, retail, real estate industry and other service sectors, like commercial service and specialized service. This change benefited from the policies of governments at all levels, and also from the transformations of profit patterns of the enterprises, and innovations in their value chain and industry chain.

3.3 Experience of Taiwan, China
China’s Taiwan implemented “export-oriented strategy” in 1960s, starting industrialization with labor-intensive industries like food, textile, etc. In 1970s, heavy industries like petrochemical, steel, shipbuilding and machinery became the new economic force, and light industries like textile, shoemaking, bicycle, furniture and toy also thrived. With the increase of cost in 1980s, the authorities
implemented “industrial upgrading strategy”, so information industry developed at very fast speed, with its laptop computer’s world market share reaching over 50% by the late 1990s. Since the new century, with the traditional industries shifting out of the island, Taiwan has readjusted the approaches to development. One of these approaches is turning to the two ends of the “smile curve”, focusing on research and development, design and marketing. Another approach is to vigorously develop productive service sectors like financial investment, commerce and trade, logistics and transportation. Today, Taiwan’s GDP is well over $7000, and over 70% is from service industries.

4 The Focus of Servitization Strategy in Hebei Province

In an economic context where industrial structure is being adjusted and the developing mode being transformed, it is necessary to learn how to eliminate the barriers and make god use of advantages, and avoid disadvantages, learn how to develop a modern service industry that is fit to economic developing mode and the upgrading of people’s consumption structure, and that has high additional value, high technical content and high growth. According to the newly issued “the twelfth five-year plan ”, in the coming five years the estimated added value growth rate of the service industry of the province will be over 10%. output value will amount to 1trillion yuan RMB, per capital added value will be 15 thousand yuan RMB, the percentage of added value of service industry will be about 38%. To reach the goal, strategies are necessary.

4.1 Make General Plan for the Undertaking of the Transfer of International Service Industry

To reach the goal, it is important to make choices for regional industrial development based on principle of echelon distribution, echelon undertaking and echelon development. So top priority should be given to modern productive industries like logistics, communication, media, advertising information, consulting and legal services. To actively undertake international service outsourcing such as information management, data processing, financial accounting, technology R & D, industrial design. Next, to develop consumption services, for example, culture-oriented tourism and real estate. To show such characteristics of the industries as extensibility, high technology-intensiveness and knowledge-intensiveness. All industries should make use of their advantages, depend on city clusters and central cities, establish national and regional service center with function highlights, and further advance the upgrading of industrial structure.

4.2 Guide Enterprises to Change Profit Model

Though demand determines production ultimately, with little change to the customers’ preference structure, production system, factors of production, and production processes will bring about significant changes to production mode, service has permeated in every parts of production processes. The services in discussion are mainly intermediate service and complementary service, which include being the intermediate input of the enterprise, circulation and financial service which is part of commodity exchange. Human capital formation service which is suitable to new production structure, and the service that is needed in the spatial coordination and regulation of the entire production system. In enterprise management, traditional manufacturing industries are developing toward service industry. It is hard to figure out which are manufacturing industries and which are service industries. According to macro-statistics, manufacturing industry and service industry complement each other as investment source and selling markets. Service and manufacturing is showing obvious integration trend. Besides, enterprises should make full use of their advantages, involve actively in regional economic coordination, and enhance cooperation with developed areas, surrounding area and large enterprise group, especially the cooperation with industries in Beijing and Tianjin.

4.3 Departments in Charge Make Regulations

In terms of systematic environment, service industry covers a wide scope, and there is big difference between different sectors. They have different problems and focus. In lack of effective coordination mechanism, it is likely to lead to policy uniformity and hard to form resultant force. While favorable
policy environment, perfect market order and reasonable system will greatly reduce the risk and transaction cost in the practice of servitization strategy. These favorable conditions can also help increase efficiency, distinguish good and bad, and facilitate the implementation of servitization strategy. Therefore government departments in charge should on the one hand make favorable policies to promote service outsourcing and participate in the service division of manufacturing industry in advanced countries. On the other hand they should attach importance to the responsibilities and obligations of manufacturing sectors in terms of science and technology, profit, energy consumption, environment protection, and human resources so as to facilitate the practice of servitization.

4.4 Expand and Establish Public Scientific and Technological Resources
Newly rising service industries start late, lack famous service brand and have low capacity in innovation, these disadvantages partly restrict the development of service industry of our province. The government should make full use of public scientific and technological resources, for example the results reports of research projects, to provide various basic and practical technical support to the enterprises. This can be important external force to promote servitization strategy.

4.5 Expand the basis of human capital for the development of service industry
The attribute of modern service industry is the human capital-intensiveness, which makes it necessary to take measures to expand technical human infrastructure. On the one hand, increase investment in education and develop human resources; on the other hand, enhance the introduction of more advanced technology, management experiences and highly qualified personnel.

5 Conclusion
Advanced service industry has become a centralized embodiment of a country or a region’s modernization, and it is the only road for developing countries to become developed to implement strategies of industrial servitization and manufacturing service enhancement and to develop production service industry and knowledge-intensive service industry. Administrative departments should constantly improve the infrastructure, create a favorable hardware environment and the communication platforms, widely spread the important values of industrial servitization, fully understand its importance to the enterprises’ long-term development, guide the transformation of the operation level’s mental inertia, and focus on the upper reaches of “smile curve” (the development and design of product, production of main parts) and lower reaches of industrial chain (channel operation, brand management and after-sale services). These processes can create higher added value and therefore obtain high economic profits.

References