



Note by EIC

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Opportunities abound in manufacturing-related services



Highlight

Manufacturing industry is increasingly shifting toward services especially in developed countries. Manufacturing related services, such as design, consultancy, or installation, are also very critical as they enhance competitiveness and add more value to products. There are opportunities for manufacturers in Thailand to engage in more service offerings such as design, waste management, or other advanced services, currently sourced from abroad.

Services are becoming a popular choice for manufacturing business. During the global crisis in 2008-2009 goods exports fell dramatically, but service exports were comparatively left unaffected. This phenomenon reinforced the point that services could prove to be less cyclical than physical goods. Services could help diversify risk and keep business stay in touch with consumers even during times of crisis. Technological advancement has also enabled manufacturers to combine services, customize and differentiate their products, improve customers' experiences and make them more appealing. This has encouraged many global manufacturers to pay even more attention to manufacturing-related services. It is estimated that services currently comprise around 25% to 50% of manufacturers' revenue in developed countries. The race between global carmakers investing in ride-sharing business, such as Uber and Lyft, is merely one example of the recently increasing trend of manufacturers' moving to services.

Policy makers are discussing how to apply new findings about the critical role of services in economic and industrial development. The trend of "servicification" has not only affected how business plans their products but is increasingly mentioned in policy making realms, especially as deindustrialization progresses in most developed countries. While shares of both output and employment in manufacturing sector are declining, shares of service sector are growing in these countries. Japan's latest industrial plan, for instance, has acknowledged the limitation in expanding production and exports of manufactured products, thus shifted its focus to value creation from services, especially utilizing information technology. International organizations such as the WTO, UNIDO and APEC are also studying how to promote and regulate the increasing role of services in international trade. EIC anticipates that discussion about liberalizing service sectors in future trade negotiations are to proliferate in the near future. In fact, the Ministry of Industry has recently held a conference on manufacturing-related services using case studies in Food and Beverages.

Manufacturing related services are necessary to improve competitiveness and to add more value to manufactured products. Services and manufacturing are very closely linked, and it is now better understood that

improvement in services contribute to industrial competitiveness. They help strengthen manufacturing bases and create new opportunities for the business in fiercely competitive markets. Many services could be used as inputs along the value chain or integrated with products to enhance customer experience and add more value to products, thus help increase margin and revenue. Services are also essential in building good relationships with customers. Service capabilities along production process are also considered key contributors to a country's competitiveness. The close link could be seen in the fact that service inputs comprise around 30% of manufacturing exports. Logistics services, for example, have an undeniably critical role in any manufacturing country. Higher logistic costs could lead manufacturers to procure parts and produce abroad instead, and then import only final products for local sales. Without any improvement in services, firms, and eventually countries, may be unable to compete in international markets.

There is room for Thai manufacturers to offer more services, even though manufacturing business in emerging countries tend to import most related services from abroad, usually from developed countries. EIC conducted a study of listed Thai manufactures and found that some have already begun providing services. A tire producing firm has opened a tire shop, distributing products from its factories directly to customers and offering repair and maintenance services. Electronic producers are also offering complete energy management solutions and products customized or designed to fit consumer's specific demand. However, most local manufacturers are currently offering basic services so there are more business opportunities out there. Other more advanced forms of service along the chain of production process including research and design, productivity improvements consultancy for daily operation, or recycling and collection of waste could be further explored. Manufacturing-related services could also be explored in introduction of new products as well. Selling electric vehicles, for example, will require strong support from services, such as car sharing, charging stations, and handling of used batteries.

Implication ■ EIC recommends that local players further explore new opportunities in manufacturing-related services. Examples in the area of related service vary from basic forms which aim to increased consumer satisfaction such as installation services, machines and equipment cleaning services, to more advanced forms which aim to address specific customer requirements and to differentiate them from competitors such as co-development, raw materials quality assurance, data analysis and process consultancy, or even offering to run the processes or services of competitors.

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