# Servitization enabled by Smart Specialisation

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*on behalf of the*
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**SBRA, Brussels (online)**

# Servitization, a driving force for innovation in the 21st century

- Servitization *is the process of creating value by adding services to products, competing through Product- Service Systems (PSS) rather than through products alone*:
  - *Strategic implications of service-led competitive strategies, notably in manufacturing,*
  - *Processes and capabilities to deliver integrated products*
  - *Services and their ability to derive economic benefit*
- Significant intangible aspects drive the whole servitization process
- Servitization requires new organisational setup

# Innovating through bundling products and services

- Technological progress enable firms in high cost locations to compete with companies based in low cost locations as quality of the services bundled goes beyond the product offer
- The economy thus moves fast from a *market reality based on producing and commercialising goods*, to a more customer centric approach, offering value added mixes of products and services.

# Post-(In)-Pandemic recovery considerations: facing a new digitised economy of servitized products

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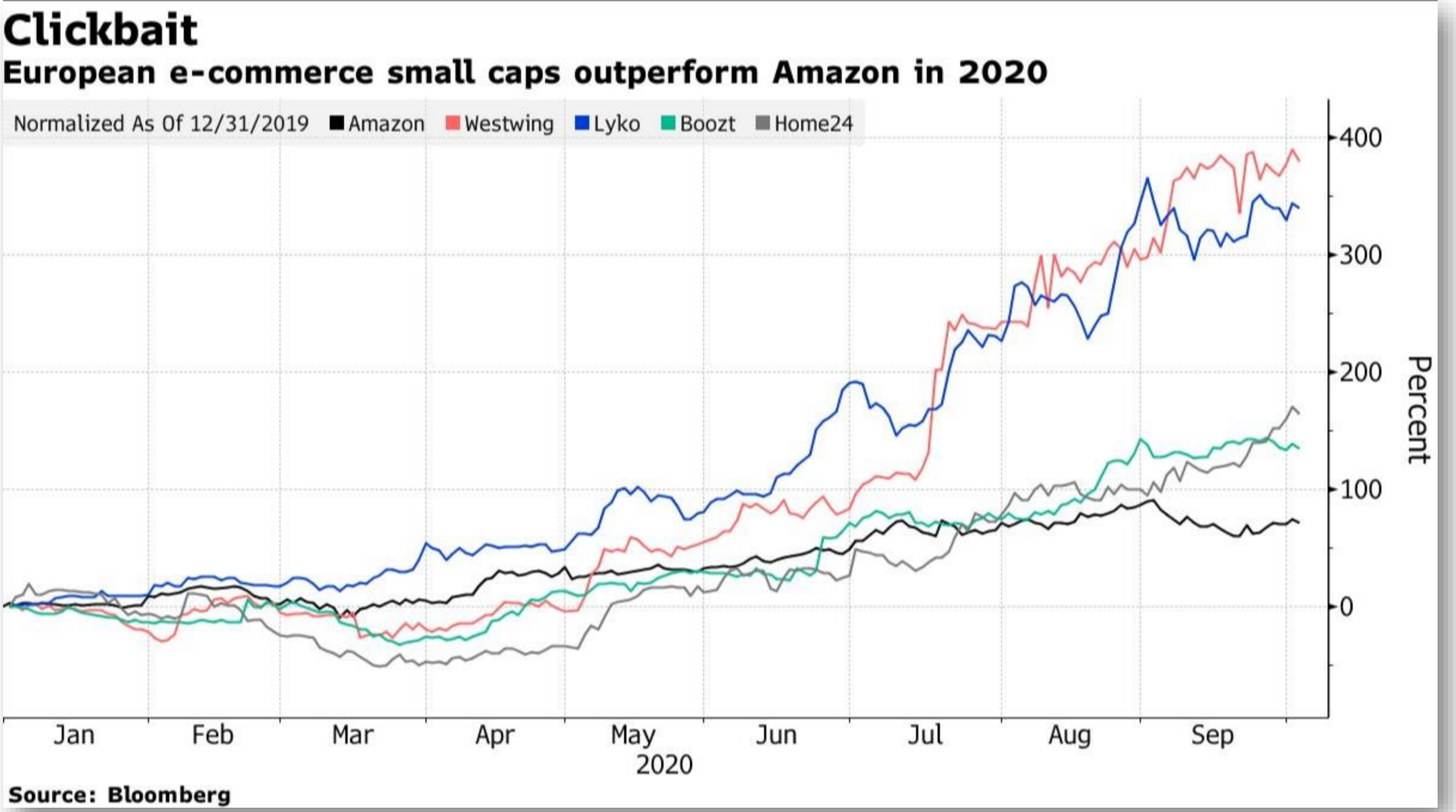
Markets

## Forget Amazon: In Europe, Small Caps Are Pandemic's Big Winners

By Lisa Pham and Kit Rees
October 3, 2020, 8:00 AM GMT+2

- Retailers, game makers, software companies lead gains
- Westwing, Home24, LoopUp have more than doubled in 2020


Clickbait
European e-commerce small caps outperform Amazon in 2020
Normalized As Of 12/31/2019
Amazon
Westwing
Lyko
Boozt
Home24
400
300
200
100
0
Percent
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
2020
Source: Bloomberg

# Smart Specialisation is the new industrial strategy for Europe – but needs re-activation!

- Smart Specialisation provides the **tools and the pathways** for European regions to identify the growth drivers of tomorrow
- S3 is **not about sectors** but about identification of promising applications that need to be co-designed and co-developed, following an evidence based **Entrepreneurial Discovery Process** (EDP). EDP ensures that factors of connectedness and related variety are well taken into account
- Servitization is a **unique opportunity for adding value** to products brought to the market by European SMEs. Clusters have a huge role to play in this field.

# Smart Specialisation: advantages…

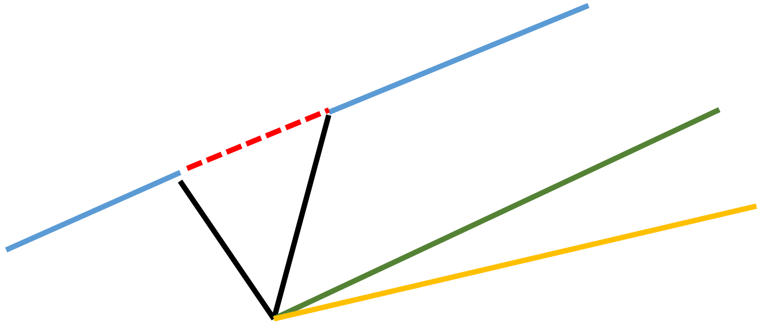
- ✓S3 is not looking at the comparative advantages of the past but **at competitive positioning in the economy of the future**.
- ✓S3 can therefore be restyled as **smart complementarity** to highlight interdependency between regions seeking the co-creation of new longer-term ‘co-opetition’ conditions in the European internal market.
- ✓Smart specialisation can help **to align resources** as effectively as possible based on place-based entrepreneurial opportunities triggered by a shared European vision.
- ✓Smart specialisation requires **tailored policy mixes and policy integration**. It stimulates integration of innovation policy in the broader set of education, training, regulation and infrastructure policies to make it work.
- ✓Smart specialisation can and must engage civic society and build **trust in the future**


# …but also an unmet potential…

- The full potential of smart specialisation has not been used, due to:
    - ❖The fragmentation of innovation and transformation policies in the EU between the different policy domains at the regional, national and European level.
    - ❖S3 – strongly linked to cohesion funding (DG REGIO) and needs a wider bandwidth within the Commission (e.g. DG RTD and Horizon Europe)
    - ❖S3 strategies often too inward-looking at the regional level
    - ❖A lack of regional capacity to develop, implement and monitor S3 strategies as a full part of their economic development policies
    - ❖A lack of co-investment – the responsibility of regional policy makers is to make co-investment happen, by committing own resources!

# Post-COVID economic considerations

- **Macroeconomic**
  - Avoid recession
  - Stabilise demand
  - Global/EU/national dimension
- **Forecast growth curves**
  - V
  - U
  - L
  - W



- **Microeconomic**
  - Firms
  - Sectors
  - Location specific
  - SMEs
  - Clusters…

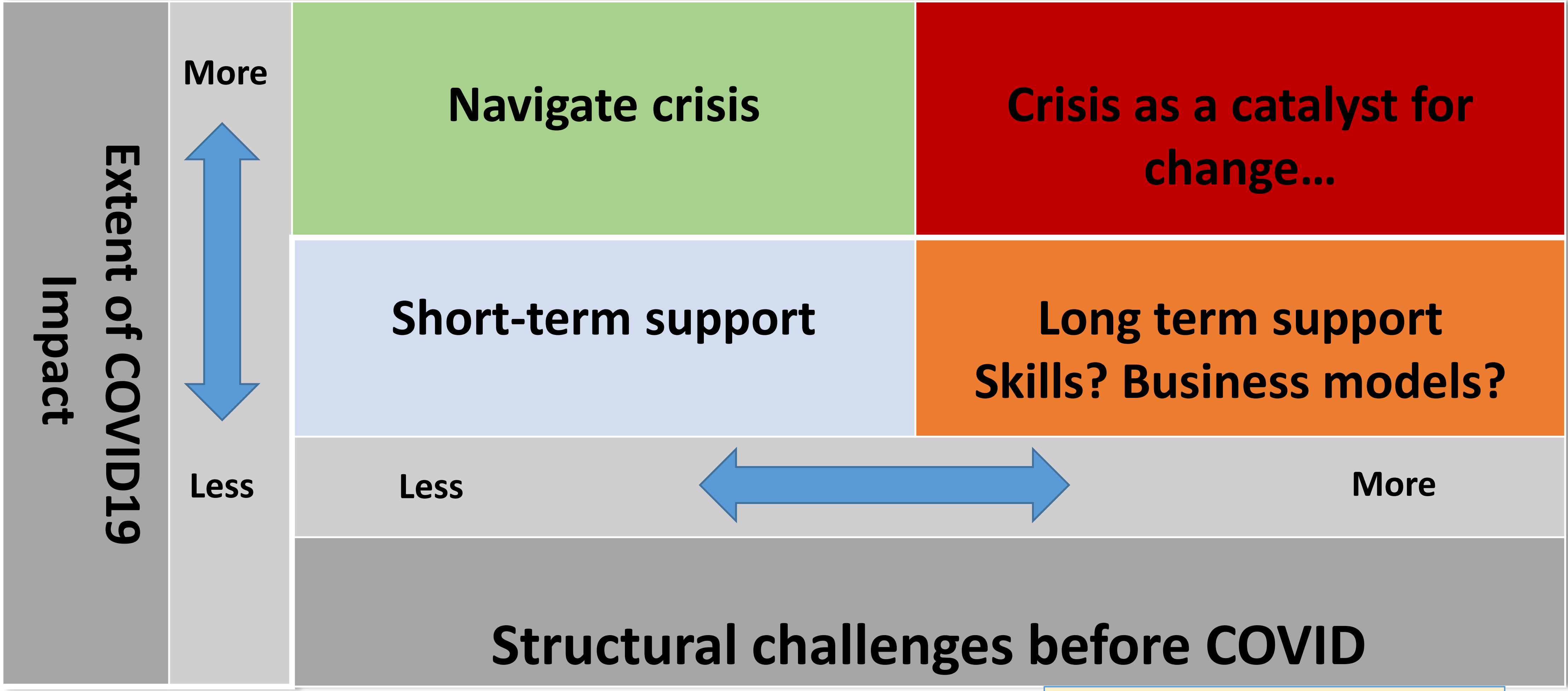
Courtesy Christian Ketels June 2020

# Updating S3: Post-COVID segment analysis

| Business | Seizing | Continuing | Rebounding | Recovering Slowly | Consolidating | Straying (struggling) |
|---|---|---|---|---|---|---|
| **Sectors** | Food retail<br>… | Pharma<br>Insurance<br>ICT<br>Food and drink… | Construction<br>Health<br>Energy<br>Admin<br>Transport… | Banking<br>… | Textiles<br>Manufacturing… | Arts<br>Entertainment<br>Accommodation<br>Food outlets<br>Air Transport… |
| **Challenges pre-COVID** | Low | Low | Low | Medium | High | Medium |
| **COVID Impact** | Low | Low | Medium | Medium | High | High |
| **Structural challenges post-COVID** | Low | Low | Low | Low | High | High |
| **Business Priorities** | | | | | | |

Adapted from McKinsey & Company Report June 2020

# Updating S3: future support




Adapted from McKinsey & Company Report June 2020

# Post-pandemic recovery: how to...

- **Update** S3 with an **outward** looking approach and mission orientation in line with the new European growth strategy.
- Enrich the **methodology** for interregional partnering through the co-developing of joint strategies between leading cluster organisations
- Ensure **political mandate and commitment**, to engage in European partnerships for the Green Deal and industrial transformation.

*Engineer a **leadership** approach with a **new narrative** on the role of multi-level governance in European green and digital transformation through a **reinvigorated** (resilience-proofed) S3.*

# The role of Local and Regional Authorities (LRAs)…

- Regions (LRAs) should actively promote the need for a strong **regional focus** in any future EU recovery plan.
- If LRAs are to play a stronger role then an improvement in **capacities and commitment** needed in developing industrial strategies and specifically smart specialisation.
- LRAs need to be in the forefront of building **quadruple helix formations** and develop effective **entrepreneurial discovery processes** (EDP) – **democratic legitimacy**
- LRAs need also to think about how their regions' economic structure could better connect to **Global Production Networks** (GPN) through the strengthening of European **value-chains** in times of the re-organisation of **global supply-chains.**

# Where do we go from here

- Shift from S3 to S4 (sustainability) and (digital) via enhanced EDP (sustainability stakeholders and civic society)
- Success factors
  - Improved multi-level governance – 'joined up' country or region
  - Improved international contacts – S3 Thematic Platforms, cross-border, new value chains…
  - Seeking complementarities through expanded use of EU funding – recovery fund, ERDF, ESF+, EIC accelerator, EIT KICs and Regional Innovation Scheme and I3..
- Post-COVID – analysis of regional assets (SWOT)
  - Supporting sectors to adapt to new normal
  - Identifying growth sectors (digital)

# Thanks for inviting us!

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- *http://www.efiscentre.eu/portfolio-item/friends-of-smart-specialisation/*