



# DANISH MANUFACTURING

— winning in the next decade

EXECUTIVE SUMMARY

McKinsey & Company



THE TUBORG RESEARCH CENTRE  
FOR GLOBALISATION AND FIRMS  
INSTITUT FOR ØKONOMI  
AARHUS UNIVERSITET

## EXECUTIVE SUMMARY

Manufacturing is a key pillar of the Danish economy, with more than DKK 230 billion in annual turnover and a higher export share than any other industry – around 65 percent of total sales. With more than DKK 80 billion in total gross value added (GVA), Danish manufacturing delivered e.g. 60 percent more value added per hour than construction, 55 percent more than trade, and 130 percent more than the primary sector. The many high-GVA jobs generated by the manufacturing industry span from white collar jobs such as software and mechanical engineering to high-value-adding blue collar jobs – all greatly important to the Danish economy.

The industry is thriving, but faces challenges including shifting demand to markets outside Europe where profit pool growth is higher than in current core markets and competition from emerging market players competing with low-cost operating models is increasing. In addition, disruptive technologies are reshaping the manufacturing industry at all levels and across all types of jobs making rapid upgrading of workforce skills paramount to success.

The potential of acting favorable to key challenges facing the industry and implement best practice across the sector is estimated to be an additional DKK 35 billion in revenue, DKK 23 billion in exports, and up to 10,000 new jobs in 2025.

To realize this potential, it becomes pivotal for companies and policy makers to answer the following questions:

**What actions are needed for Danish manufacturing to improve its current competitive position?**

- How should Danish manufacturing companies react to challenges and opportunities facing the industry?
- How can policy makers ensure optimal conditions for Danish manufacturing in the future?
- How can stakeholders such as unions and interest groups support the future competitiveness of Danish manufacturing?

The aim of this report is to spark a debate around these questions by suggesting five key action areas – based on extensive research, a comprehensive survey of +225 executives in Danish manufacturing companies and discussions. Combined, these action areas constitute our perspective on actions needed to ensure the future competitiveness of Danish manufacturing.



To derive the five action areas, the report is divided into three sections. First, the factors determining profitability and growth in Danish manufacturing are outlined and discussed. Second, the most pressing and impactful future trends are analyzed and evaluated. Third, the insights from the first two sections are combined with expert insights to identify the five action areas. Highlights from these three sections are outlined below.

## A. The success patterns

The study shows there is no single archetype for success. Instead, the analysis points to ten success patterns of fast-growing and profitable companies, which may characterize business models geared to succeed in a globalized economy.

The success patterns comprise:

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|---|--|
|  <p><b>Company size</b><br/>– larger companies are more profitable and grow faster</p>   |  <p><b>Solution scope</b><br/>– component businesses are more profitable while solution providers grow faster</p>           |
|  <p><b>Internationalization</b><br/>– more globalized companies derive higher profits</p>                                      |  <p><b>Aftersales</b><br/>– aftersales generally drive profitability but full potential has not yet been unlocked</p>       |
|  <p><b>Satisfied customers</b><br/>– high customer satisfaction is a prerequisite for success</p>                              |  <p><b>Industry affiliation</b><br/>– industry affiliation sets the pace but opportunities abound in all industries</p>     |
|  <p><b>Innovation</b><br/>– innovation leaders outperform on profitability and growth</p>                                      |  <p><b>Management incentives</b><br/>– there is a significant growth advantage for companies with incentivized managers</p> |
|  <p><b>Premium offerings</b><br/>– being a premium provider pays off, especially in combination with international sales</p> |  <p><b>Labor productivity</b><br/>– highly productive companies perform above peers on profitability and growth</p>       |

## B. The trends

Building on the success patterns, the report outlines which trends Danish manufacturing companies perceive as likely to be most important in shaping the business environment over the coming decade. There are seven trends in total – five pressing trends and two longer-term trends:

The five trends that companies perceive as most important and pressing going forward

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Increased demand for customer-specific system solutions and integrated services
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Relative shift of demand to markets outside Europe
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Rising and/or more volatile raw material costs
- 

Increasing importance of aftersales/service
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Increasing environment aspirations and requirements at process and product levels

Two additional trends that we expect to be of major importance for the longer-term performance

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Disruptive technological innovations revolutionizing products or production processes
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Shortage of engineers/skilled labor in Denmark

## C. The action areas

Based on expert insights and analyses of key intersections between the above success patterns and future trends, the report identifies five action areas. These are the key areas on which companies and policy makers must focus to sustain the current position of Danish manufacturing.



### Targeted internationalization strategy with emphasis on premium.

Companies are recommended to take a granular and gradual approach to developing an internationalization strategy, and to focus on emerging countries. Policy makers can support that effort by encouraging exports, attracting qualified foreign labor, and ensuring sufficient growth capital.



### Investment in disruptive technologies to drive innovation and boost productivity.

Companies should exploit disruptive technologies such as digitization across products and operations. Policy makers can help by putting "Industry 4.0" on the national agenda, improving absorption of university-generated knowledge and stimulating entrepreneurship.



### Customized solutions based on modularization.

Companies should root their approach in a solid understanding of the solutions that customers in their segment require – particularly where new entrants are gaining market share in commoditized components. Policy makers should stimulate knowledge development and push for mutual recognition of standards in Europe.



### Expanded aftersales/service offering.

Companies should base their offering and pricing on customer needs and invest in the required infrastructure and organizational setup. To stimulate demand and incentivize companies, policy makers can push for public tenders in specific areas to include a certain amount of aftersales/services and push for improved EU service directives.



### Circular products and business models.

Companies should strive to unleash the potential in circularity. Designing for the highest utility through time could produce EUR 200 million annually by 2025. Companies should focus on product design and technology, business models, and reverse cycle skills. Policy makers may offer support by investing in capability building and backing research into remanufacturing technologies.

In conclusion, the responsibility to ensure the future competitiveness of Danish manufacturing rests on both companies and policy makers as well as on other stakeholders. We believe that with a combined and dedicated effort, Danish manufacturing can navigate the coming period with confidence and emerge even stronger.

This report has been jointly developed by The Tuborg Research Centre for Globalisation and Firms at Aarhus University and McKinsey & Company with support from the Confederation of Danish Industry. We welcome your feedback and comments, in particularly from readers impacted by the issues raised.

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#### Contacts | The Tuborg Research Centre for Globalization and Firms

##### Philipp Schröder

*Professor and Centre Director*

*psc@econ.au.dk*

#### Contacts | McKinsey & Company

##### Jens Riis Andersen

*Engagement Manager*

*jens\_riis\_andersen@mckinsey.com*

##### Søren Fritzen

*Director*

*soren\_fritzen@mckinsey.com*

##### Klemens Hjartar

*Director*

*Klemens\_Hjartar@mckinsey.com*

##### Johannes Liebach Lüneborg

*Partner*

*Johannes\_luneborg@mckinsey.com*

##### Christoffer Husted Rasmussen

*Associate Principal*

*christoffer\_rasmussen@mckinsey.com*

