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Service growth in product firms: Past, present, and future

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ABSTRACT

Service growth in product firms is one of the most active service research domains and is open to a variety of conceptualizations. This article provides a critical inquiry into the past, present, and future of the research domain. The evolution of the research on service growth is discussed in two phases: (1) setting the boundaries of the research domain, and (2) emergence of the conceptual foundation. We find that while research in this area has a well-established tradition in terms of output, theoretically it is still largely in a 'nascent' phase. Next, we highlight the contributions of the papers in this special section, emphasizing their challenges to prevailing assumptions in the research domain. We conclude by identifying, from the contributions to this special section, suggested themes for further research on service growth: the assessment of empirical evidence of the impact of service growth on firm performance, the role of merger & acquisitions in the service growth strategy, the exploration of single/multiple positions along the transition line, the process of adding or removing services, and expanding the context of service growth beyond product manufacturing firms.

1. Introduction

Service growth in product firms has become one of the most active service research domains, to the point that it has been identified as a strategic research priority (Ostrom et al., 2015). This domain is concerned with product firms shifting from developing, manufacturing, and selling products to innovating, selling, and delivering services (e.g. Davies, 2004; Gebauer, Edvardsson, Gustafsson & Witell, 2010a; Oliva & Kallenberg, 2003; Tukker, 2004; Ulaga & Reinartz, 2011). This shift towards services is typically a strategic response to reaching the maturity phase in the product lifecycle and, thus facing limited revenue growth. Services are a way to escape the product commoditization trap; for example, in the elevator industry, companies like Otis and Kone enjoy maintenance service margins of 25–35% compared with a margin of approximately 10% for new equipment (The Economist, 2013). If successfully deployed, services can become an important source of revenue and profits, ensure customer satisfaction and loyalty, and support firms' growth (Eggert, Hogreve, Ulaga & Muenkhoff, 2014; Fischer, Gebauer, & Fleisch, 2012). In addition, services can play a powerful role in building brand equity in business markets (Davis, Golicic, & Marquardt, 2008), especially in industries where it is difficult to maintain competitive product differentiation due to commoditization (Mudambi, Doyle, & Wong, 1997).

Across industry sectors, firms are actively pursuing service growth strategies. Examples include traditional manufacturing corporations—such as General Electric and Siemens—as well as software firms like Microsoft, and former hardware firms like IBM. For example, Microsoft is increasingly orienting towards services with strategic initiatives such as re-formatting its Office suite into a cloud-based subscription model and IBM is transforming into a cognitive solutions and cloud platform company. The shift, however, is not limited to large firms, as many SMEs are also re-orienting towards services (e.g., Kowalkowski, Witell, & Gustafsson, 2013).

Service growth is open to a variety of conceptualizations (e.g., servitization, hybrid offerings, integrated solutions, transition from products to services, systems selling, and product-service systems), and has attracted interest from a variety of disciplines (e.g., engineering, innovation, marketing, operations, services, and general management). Theoretical and empirical work has been accumulating with a sharp rise in publications, special issues, and conferences in recent years (Rabetino, Harmsen & Kohtamäki, 2015). Well over 180 scholarly journal articles on this topic are published every year, as well as books geared towards academics (e.g., Fischer et al., 2012) and managers (e.g., Baines & Lightfoot, 2013). Many findings have been proven to be highly relevant to industry and have attracted management attention. While the history of research on service growth in product firms can be traced back to the mid-1980s, its antecedents go back to the mid-1800s, when the expansion of the railroad and the telegraph networks

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in the US set the stage for the vertical integration of manufacturers into marketing, sales, repair, financing, and purchasing activities (Schmenner, 2009).

However, articles increasingly replicate existing knowledge in an exploratory and descriptive manner. The identification and investigation of small empirical gaps dominates current contributions and results in incremental theoretical improvements. Much of the research still lacks a strong theoretical foundation and substantial theoretical extensions are rare (Oliva, 2016). The purpose of this special section is to promote and bring together critical research that challenges prevailing assumptions and strengthens the theoretical foundations. As a way to frame the contribution of this special section, we discuss the past, present, and future of the research domain.

2. Past

The evolution of the research field can be divided into two distinct phases (see Fig. 1). However, critical analysis suggests that despite tremendous research interest and output, which suggest that the research tradition is well established, the research domain is still in a theoretical and methodological nascent stage.

2.1. Phase 1: setting the boundaries of the research domain

Service growth strategy was identified as a recurring phenomenon, and the boundary of the research domain was established during the last two decades of the last century, in what we call the first phase of the research evolution. The research started with the idea that services were customer service, that is, an add-on to products and an important part of the buyer-seller relationship (Bowen, Siehl & Schneider, 1989; Martin & Horne, 1992) and means of competitive advantage (Matthyssens & Vandenbempt, 1998; Vandermerwe & Rada, 1988). Conceptually, Bowen et al. (1989) suggested two alternative configurations of service orientations in manufacturing: service-oriented manufacturing and prototypic manufacturing characteristics. If manufacturers emphasize service-oriented goals, such as customer responsiveness and high customer contact, then they are urged to adopt a service-oriented manufacturing configuration based on organizational arrangements and resource allocation originating in service literature.

One of the seeds for this line of research was Vandermerwe and Rada's (1988) introduction of the term "servitization of business". While servitization today has become almost synonymous with service growth in product firms, Vandermerwe and Rada regard it as a competitive tool relevant for companies in all industries on a global scale. It allows companies to create value by blending services into the overall strategies of the company. Echoing Levitt's (1972) argument that "Everybody is in service" (p. 42), Vandermerwe and Rada (1988) argued that simplistic distinctions between goods and services were outdated:

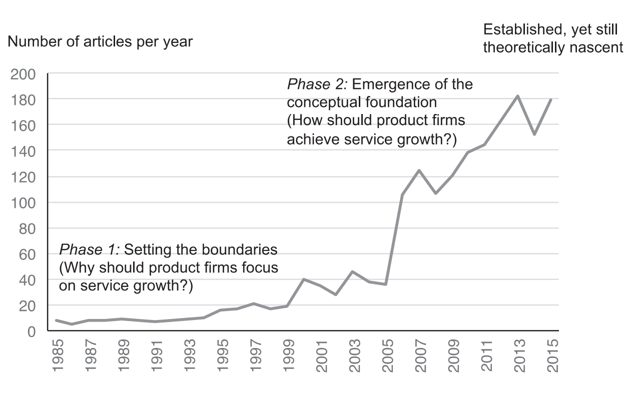

Fig. 1. The evolution of research on service growth in product firms (Adapted from Gebauer & Saul, 2014).

"Most firms today, are to a lesser or greater extent, in both. Much of this is due to managers looking at their customers' needs as a whole, moving from the old and outdated focus on goods or services to integrated "bundles" or systems, as they are sometimes referred to, with services in the lead role" (p. 314). Such arguments resonated with practitioners and led to the formation of strategic, financial, and marketing arguments for service growth in product-oriented companies (e.g., Anderson & Narus, 1995; Lele, 1986; Potts, 1988; Quinn, Doorley, Paquette, 1990).

2.2. Phase 2: emergence of the conceptual foundation

The second phase starts around 2000 with the realization that taking advantage of strategic, financial, and marketing benefits requires different types of services (e.g., after-sales services, value-added services, services supporting the product, or services supporting the customer). During this phase, the majority of the contributions and conceptualizations that built the *intellectual core* of the research field emerged. These conceptualizations include product-service systems (PSS) (Mont, 2002), the transition from products to services (Oliva and Kallenberg, 2003), integrated solutions and systems integration (Davies, 2004), service infusion (Brax, 2005), and service business development (Fischer et al., 2012). During this phase, research also explored barriers and key success factors for services in product firms (e.g., Gebauer et al., 2005; Oliva & Kallenberg, 2003). Gebauer et al. (2005) points out that service growth is far from easy. Companies often face the service paradox: they invest in services, but do not earn the expected, corresponding returns. The emergence of the conceptual foundations of the field is closely intertwined with growing interest from practitioners looking to the field to answer questions like: how to achieve service growth, how to transform business models from selling products to selling solutions, how to innovate new services, how to change from giving services away for "free" to charge for services, and so on.

Mathieu's (2001b) distinction between service offerings related to the manufactured goods (SSP: service supporting the supplier's product) and more product-independent services focusing on the customer's processes (SSC: service supporting the client's action in relation with the supplier's product) is perhaps the most wide used classification of industrial services. For example, it serves as one of two dimensions in several service taxonomies (e.g., Oliva & Kallenberg, 2003; Raddats & Easingwood, 2010; Ulaga & Reinartz, 2011; Windahl & Lakemond, 2010).

The most cited publication is Oliva and Kallenberg's (2003) field study of equipment manufacturers. The article proposed one of the first process theories for service growth and its service transition concept has had major influence in the research domain, regardless of academic discipline. It found that in most of the firms sampled, the transition is a deliberate transformation effort that involves disruptive developments of new capabilities as response to strategic threats and opportunities. For each of these disruptions (i.e., steps) they identified the series of triggers, goals, and actions normally deployed, and they argued that the adoption of new services seemed to be based on a trial and error capability-centered development. It is, however, interesting to note that the transition framework that they used to design the inquiry (Fig. 1) has been interpreted as a proposal of a smooth and continuous evolution towards more services, although they clearly state that that such evolution is not expected and, indeed, did not find evidence for it. Oliva and Kallenberg (2003) were also the first to articulate the potential cultural conflict between the existing product and the emerging service organizations. Previous work (Oliva, 2001; Oliva & Sterman, 2001) had suggested that a services operation run with manufacturing's emphasis on throughput and efficiency will result in eroding service quality standards. Indeed, Oliva and Kallenberg (2003) found that firms that successfully managed to deploy services tended to isolate the service organization early in the transition.

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