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Identifying the right solution customers: A managerial methodology

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ABSTRACT

The purpose of this paper is to develop and apply a methodology for identifying, assessing and segmenting customers for business solutions. Firstly, criteria for evaluating solution customers are identified from the literature. These criteria are then refined and differentiated through interviews with 23 solution project managers. Secondly, a longitudinal case study with three solution suppliers and five of their customers is conducted to transfer the selection criteria into a managerial methodology which is validated by both solution suppliers and customers. The developed methodology comprises 21 criteria which are structured into two dimensions: the quality of the relationship to date and the customer's potential for future solution partnership. By combining these two dimensions into a portfolio analysis, four customer segments are identified to help suppliers determine customer attractiveness. The study's contribution lies in bridging academic knowledge and managerial practice to develop a new methodology for helping solution providers to make better informed decisions and reduce the risk of solution failure.

1. Introduction

Offering solutions is an increasingly popular strategy in business-to-business markets. Companies such as Caterpillar, Michelin and Rolls-Royce are examples of companies that have transitioned from selling stand-alone products to selling solutions successfully. Rolls-Royce Aerospace, for example, offers airline customers an alternate to the outright purchase of aero engines. Instead, airlines can pay for 'engine by hour of flight' whilst allowing Rolls-Royce to manage the maintenance of the engine remotely 24/7 during flight. This contributes to a smooth operation of the airlines' flight schedules and increases aircraft availability (Rolls-Royce, 2015). Caterpillar's coal mining fleet management supports their customers' operations with real-time machine tracking, assignment and productivity management. It works with all types of assets and equipment, contributes to reductions in costs per ton and enhances productivity (Caterpillar, 2012).

The literature on business solutions is emergent and extant definitions of business solutions contain different perspectives. The majority of definitions state that it is an integrated combination of products and/or services that address a customer's business needs (e.g. Bastl, Johnson, Lightfoot, & Evans, 2012; Brady, Davies, & Gann, 2005; Brax & Jonsson, 2009; Davies, Brady, & Hobday, 2007; Johnstone, Dainty, & Wilkinson, 2009; Sawhney, 2006; Windahl & Lakemond, 2006, 2010). In other words, a solution is an offering that integrates different components and contains an outcome focus. Some definitions also assert that solutions are co-created with customers (e.g. Cova & Salle, 2008; Evanschitzky, Wangenheim, & Woisetschläger, 2011; Nordin & Kowalkowski, 2010; Salonen, 2011). Others take a process view, stating that business solutions are a set of customer-supplier relational processes (e.g. Storbacka, 2011; Töllner, Blut, & Holzmüller, 2011; Tuli, Kohli, & Bharadwaj, 2007). We argue that none of these perspectives alone captures the nature of solutions sufficiently. Firstly, by simply positing that a solution is an integrated combination of products and services, the concept is not differentiated from that of product bundling. Stremersch and Tellis (2002, 57) define product bundling as "the integration and sale of two or more separate products or services at any price". As with solutions, the integrated nature of product bundles is supposed to provide value that is greater than the sum of the individual components (Stremersch & Tellis, 2002). Secondly, the co-creation view by itself does not distinguish solutions from other types of service offerings (Nordin & Kowalkowski, 2010). From a service logic perspective, this applies to all kinds of services irrespective of whether they are solutions or less complex offerings (cf. e.g. Grönroos, 2011; Normann, 2001; Vargo & Lusch, 2004). We therefore argue that solutions have to combine the defining elements discussed in the literature. The definition by Ulaga and Reinartz (2011) best meets this requirement. The authors define solutions as offerings supporting the customer's processes with a value proposition that relates to achieving a result (Ulaga & Reinartz, 2011, 17). Furthermore, they point out that solutions integrate goods and services and comprise customer involvement. We extend their

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definition by adding the emphasis on product-service bundles and co-creation value. Hence, in this paper, business solutions are defined as product-service bundles supporting the customer's processes with a value proposition that relates to achieving a co-created result.

Business solutions can not only reduce risk, cost and complexity for the customer, but successful suppliers can increase their own profit by up to 25% versus merely selling products (Roegener, Seifer, & Swinford, 2001). Yet, the transition from offering products to solutions represents a major strategic change and requires a customer-oriented adaptation of the entire business model to realise its full potential (Fang, Palmatier, & Evans, 2008). Much of our marketing theory and practice, however, has been developed in the context of selling stand-alone products and services rather than complex solutions. We posit that due to their interactive and process-driven nature, marketing and selling strategies for solutions differ from traditional product- or service-focused approaches. So far, the literature has considered the pricing implications of solutions and stressed that many traditional pricing approaches cannot be applied to solution contexts (Bonnemeier, Burianek, & Reichwald, 2010). Moreover, a range of studies have investigated how solutions affect suppliers' selling approaches (Bonney & Williams, 2009; Le Meunier-FitzHugh, Baumann, Palmer, & Wilson, 2011; Sharma, Iyer, & Evanschitzky, 2008; Storbacka, Polsa, & Sääksjärvi, 2011). Finally, the lifecycle or rather development cycle of solutions and the resulting supplier capabilities and management practices that emerge have previously been studied (Brady et al., 2005; Storbacka, 2011; Tuli et al., 2007; Ulaga & Reinartz, 2011). However, to date, segmenting and targeting solution customers as one of the key strategic marketing tasks, has received scarce attention. As solutions lead to higher dependency and interconnectedness between supplier and customer (Tuli et al., 2007), the number of customers willing to enter solution relationships is likely to be small. Also, the value proposition of a solution corresponds to what Anderson, Narus, and van Rossum (2006) designate as a "resonating focus", i.e. it relates to what is most worthwhile to the customer in the longer-term. This, in turn, leads to an extension of the value creating activities and a deeper level of co-creation. It can be assumed that not all customers have a potential for this extended value proposition. For instance, customers that already have a superior logistics organisation, or possibly a third-party logistics provider, do not need a logistics solution since they do not have a problem to be solved. Hence, not all existing customers of a supplier are qualified as solution customers. In a similar vein, the solution value proposition may appeal to prospects that have not been attracted to the supplier's stand-alone product or service offerings.

From the supplier perspective, solutions often require relationship-specific investments (Miller, Hope, Eisenstat, Foote, & Galbraith, 2002) so the supplier needs to conduct thorough assessments of any potential solution customers before going down this path. The purpose of this paper is to address a gap in the literature in understanding solution customer selection and to help managers evaluate the suitability of prospective solution customers. The paper develops an approach through which potential solution customers can be identified, assessed and segmented. The objectives are firstly, to derive a set of solution customer segmentation criteria from the extant literature; secondly, to refine, specify and differentiate these criteria empirically; and thirdly, to validate the criteria via the development of a managerial methodology and suggest resultant strategy implications for suppliers. Overall, this paper aims to make a conceptual contribution by articulating procedures for executing business-to-business marketing strategies in the prominent area of business solutions (MacInnis, 2011). Our conceptual contribution can be positioned as "summarising", i.e. through inductive reasoning we encapsulate and consolidate existing empirical knowledge on solution customer characteristics into a manageable set of activities and an organising framework. As stated by MacInnis (2011, 142): "conceptual contributions at the procedure level can be of particular value to marketing practitioners."

The remainder of the paper is structured into four parts: Firstly, we present a literature review that identifies criteria for selecting solution customers. This review draws on extant knowledge about key account selection, relationship marketing, and customer integration into innovation processes. Secondly, we present the methodology, an interaction research approach (Gummesson, 2002) consisting of two parts. The first part comprises semi-structured interviews with 23 managers of international solution providing companies. The objective is to refine, specify and differentiate the literature-derived insights. The second part consists of a longitudinal case study with three solution suppliers and selected customers. The aim is to transform the selection criteria into a managerial methodology which is validated by both solution suppliers and customers. Thirdly, we present and discuss the findings. The final set of solution customer selection criteria comprises 21 criteria relating to the past customer-supplier relationship and the potential of the customer as a future solutions partner. Finally, we conclude the paper by outlining managerial and theoretical implications.

2. Literature review: criteria for solution customer selection

In order to identify assessment criteria for segmenting solution customers, not only literature on business solutions, but also literature in the related fields of key account selection, relationship marketing and customer integration into innovation processes has been considered. The criteria we derived from the literature can be structured into seven areas: Customer paying and investment behaviour, supplier contacts within the customer organisation, customer attitude towards the business relationship, customer competency as a value co-creator, customer attitude towards joint innovation with the supplier, customer industry and solution replication potential (cf. Table 1). Before we elaborate on the criteria in more detail, it is important to point out that business practice shows that essential solution criteria, such as trust, make it almost impossible to start a new customer relationship as a solution relationship. Therefore, our paper focuses on existing customers. However, at the same time it helps to estimate the potential of new customers to become a solution customer in a reasonable amount of time.

2.1. Customer paying and investment behaviour

One financial consideration for suitable solution customers relates to the customer's practice of paying on time without having to be chased for the payment. This creates a satisfactory exchange performance for the supplier (Han, Wilson, & Dant, 1993). Another financial aspect relates to the customer being both able and willing to invest sufficient funds in the relationship to ensure an economically viable relationship development (Adamson, Dixon, & Toman, 2012; Campbell & Cunningham, 1983; Everhartz, Maiwald, & Wieseke, 2014; Ojasalo, 2001). From a solution perspective, both criteria are important because potentially high up-front investments on behalf of the supplier stress the need for secure returns and hence customer payment reliability.

2.2. Supplier contacts within the customer organisation

In contrast to goods sales, business solution offerings tend not to follow pre-defined customer specifications and are seldom well defined from the beginning. Rather, they call for strong customer involvement and co-creation to elaborate the offering (Ulaga & Reinartz, 2011). Also, the implementation of business solutions is likely to affect various actors within the customer organisation in different ways and some may benefit more from the solution than others (Macdonald, Wilson, Martinez, & Toossi, 2011). Therefore, the supplier should have contacts to the key personnel within the buyer organisation. Contacts to actors at the top management level are crucial since these strategic decision makers tend to see the potential gains from solutions more readily (Ulaga & Reinartz, 2011). In addition, Michel, Brown, and Gallan (2008) differentiate the roles of solution buyers, users and payers. Learning about their individual needs and requirements is essential in order to be able to "develop the right argument for the right person" (Ulaga & Reinartz, 2011, 13). Adamson et al. (2012) distinguish

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