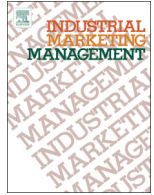




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## Industrial Marketing Management



## Servitization in global business-to-business distribution: The central activities of manufacturers

Taru Hakanen<sup>a,\*</sup>, Nina Helander<sup>b,c</sup>, Katri Valkokari<sup>d</sup>

<sup>a</sup> Business, innovations and foresight, Technical Research Centre of Finland (VTT), Tekniikankatu 1, FI 33101, Tampere, Finland

<sup>b</sup> Department of Information Management and Logistics, Tampere University of Technology, Korkeakoulunkatu 10, FI 33101, Tampere, Finland

<sup>c</sup> Department of Management Studies, University of Vaasa, Korkeakoulunkatu 10, FI 33101, Tampere, Finland

<sup>d</sup> Business, innovations and foresight, Technical Research Centre of Finland (VTT), Tekniikankatu 1, FI 33101, Tampere, Finland

### ARTICLE INFO

#### Article history:

Received 24 May 2015

Received in revised form 10 October 2016

Accepted 12 October 2016

Available online xxxx

#### Keywords:

Servitization

Manufacturer

Global distribution

Distribution channels

Marketing channels

Business-to-business

### ABSTRACT

Manufacturers' servitization development is a prevalent trend in the current business world. Companies then aim to increase customer closeness and complement product offerings with services. However, extant literature on distribution and marketing channels literature remains limited in terms of the implications of servitization for global business-to-business distribution. Therefore, this qualitative multiple case study identifies the central activities of servitizing manufacturers in global distribution. The study concludes with the following research propositions: Servitizing manufacturers develop global service portfolios and customize offerings according to local customer characteristics; build global operation models and adjust local service processes; ensure global brand coherency and design the customer experience according to local customer expectations; and create global value propositions and enhance local value co-creation with business customers. The study outlines managerial implications in terms of organizing global distribution. It also discusses new knowledge sharing and capability needs regarding solution sales, service provision and customer relationship management.

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### 1. Introduction

The increasing importance of service is one of the prevalent trends in business-to-business markets (Lusch & Vargo, 2006; Vargo & Lusch, 2008). Instead of focusing solely on products, manufacturing companies complement their product-based offerings with industrial services in servitization (Oliva & Kallenberg, 2003; Vandermerwe & Rada, 1988). Companies thus develop capabilities and processes in order to shift from selling products to selling integrated products and services that deliver value-in-use for the customers (Baines et al., 2009). In other words, companies seek competitive advantage through valuable and inimitable resources (Barney, 1991; Penrose, 1959; Wernerfelt, 1984). They develop and customize their offerings for various markets and business customers so as to gain the means for differentiation (Robinson, Clarke-Hill, & Clarkson, 2002) and engendering customer loyalty in global markets. In addition to evolving offerings, servitization shifts the nature of customer interaction from transaction-based to relationship-based, requiring stronger customer orientation (Baines, Lightfoot, Benedettini, & Kay, 2009; Oliva & Kallenberg, 2003). The servitization development is based on sound knowledge of customers'

businesses, which is ensured through enduring business relationships (Hakanen, Kansola, & Valkokari, 2014; Shepherd & Ahmed, 2000).

In order to reach customers on global business-to-business markets, several manufacturers rely on distribution and marketing channels (Kalafatis, 2002; Olsson, Gadde, & Hulthén, 2013; Skarmees, Katsikeas, Spyropoulou, & Salehi-Sangari, 2008). Manufacturing companies then aim to gain a competitive advantage by operating via a set of different intermediaries, such as agents, distributors and dealers on various markets (Frazier, 1999). They extend their resource base beyond company borders, and the role of effective governance, knowledge sharing, and the application of resources in interactions become central (Dyer & Singh, 1998). However, global distribution has undergone several drastic changes over the past decades. Both practice and research recognize that the logic of action within global distribution has changed, that is to say, the roles of manufacturers, various intermediaries and business customers are in constant movement (Fein & Jap, 1999; Gadde, 2014; Olsson et al., 2013). Companies actively seek new positions and sources of competitiveness in global distribution. At the same time, business customers' needs have become more extensive, and the local characteristics of markets and business customers require local customization. As manufacturers strive for efficient distribution, servitization may also pose challenges to manufacturers in terms of the changing logic of action, evolving offerings and their increasing desire for 'customer closeness'.

\* Corresponding author.

E-mail addresses: taru.hakanen@vtt.fi (T. Hakanen), nina.helander@tut.fi (N. Helander), katri.valkokari@vtt.fi (K. Valkokari).

This study suggests that servitization development may influence global distribution of manufacturers. Due to the increasing scope of services in their offerings and customer interactions, certain activities may then become central for servitizing manufacturers – the earlier literature concerning distribution and marketing channels provides limited insight here (e.g. Frazier, 1999; Kalafatis, 2002; Olsson et al., 2013; Payne & Frow, 2004; Pimentel Claro & Oliveira Claro, 2010; Skarmeas et al., 2008). Nevertheless, servitizing manufacturers struggle with the challenges of meeting evolving customer needs and organizing the global distribution of products and services efficiently and in a way that is customer-focused. Thus, more knowledge is needed on the way servitizing manufacturers operate in global distribution and which activities are of central importance. This study employs a qualitative multiple case study research approach based on interviews ( $n = 26$ ) in four manufacturing companies and data collected at thirteen company workshops. The central activities of servitizing manufacturers are identified with the service concept 'lens' comprising the following elements: 1) core content of the offering, 2) service operations and processes, 3) customer experience, and 4) service outcome and customer value (Edvardsson & Olsson, 1996; Goldstein, Johnston, Duffy, & Rao, 2002; Johnston & Clark, 2008).

While earlier literature in the industrial marketing domain is scarce regarding empirical studies on servitizing manufacturers in global business-to-business distribution, this study provides new knowledge on their central activities and concludes by postulating four research propositions: Servitizing manufacturers I) develop global service portfolios and customize offerings according to local customer characteristics, II) build global operation models and adjust local service processes, III) ensure global brand coherency and design the customer experience according to local customer expectations, and IV) create global value propositions and enhance local value co-creation with business customers. Manufacturers, then, tackle the so called 'glocal' distribution, i.e., they provide a balance between, for example, *global* process efficiency and brand coherency and customizing the offering and service co-production to *local* customers' preferences. In addition, the study provides managerial insights in terms of possible strategic options and solutions for companies in navigating the servitization-induced changes in organizing global distribution.

The discussion of distribution channels and networks is rooted in close and partly overlapping research streams, such as supply chain and network management (e.g. Lambert & Cooper, 2000; Stevens, 1989; Thomas & Griffin, 1996) and logistics management (e.g. Cooper & Ellram, 1993; Goffin, 1999; Stank, Keller, & Daugherty, 2001). In addition to the studies dealing with upstream dimension from manufacturers' perspective, a smaller proportion of the research concerns downstream, customer-facing dimension (e.g. Lorentz & Ghauri, 2010; Shih, Hsu, Zhu, & Balasubramanian, 2012). However, underpinning of the distribution and marketing channels literature was selected because this study concentrates only on the downstream, customer-facing dimension of manufacturers with the focus on the related activities. The resonance between the servitization phenomenon and the marketing disciplines further supports the positioning on industrial marketing, rather than the operation management-oriented supply network or logistics management literature. Consequently, the study contributes with the identified activities to the industrial marketing literature and especially to the literature dealing with distribution channels and marketing channels (e.g. Frazier, 1999; Gadde, 2014; Kalafatis, 2002; Olsson et al., 2013; Payne & Frow, 2004; Pimentel Claro & Oliveira Claro, 2010; Skarmeas et al., 2008; Zeng, Chen, Chuoyan Dong, & Zheng, 2015).

The paper proceeds as follows: firstly, a literature review and synthesis are presented in the theory chapter focusing on organizing global distribution, servitization of manufacturers and the service perspective on global distribution; secondly, the methodology section provides knowledge about how the study was conducted and reasons for the approach and methodology selected; thirdly, empirical results are reported in terms of the central activities of servitizing manufacturers in global

distribution; and, finally, the conclusions are presented in terms of the theoretical contributions and managerial implications.

## 2. Theory

### 2.1. Organizing global distribution

Manufacturers operate globally either through direct or indirect sales via a set of different intermediary companies. Intermediaries are actors such as agents, distributors, dealers and service providers (Frazier, 1999). The sets of intermediaries in different markets form distribution channels and networks (Gadde, 2014; Kalafatis, 2002; Olsson et al., 2013; Skarmeas et al., 2008) through which manufacturers distribute their products and services to the global business-to-business markets. Intermediaries have traditionally had a strong focus on services in their operations as they base their business predominantly on sales and marketing, customer relationship management and logistics services. The emphasis for manufacturers is on the material flows in the upstream dimension and on information flows in the downstream dimension (Olsson et al., 2013). In addition to the central role of information flows, this study pinpoints the central role of service in the downstream dimension of the manufacturer. Thus, intangible resources play a central role in the downstream dimension from the perspective of manufacturers.

The way resources (both tangible and intangible) are integrated and applied in interactions among the manufacturer, intermediaries and business customers is salient in global distribution. Organizing and re-organizing the multiple, complex distribution and marketing channels in an optimal way for resource integration is crucial in terms of manufacturers' competitiveness. However, prominent trends, such as servitization, may change the setting for global sales and distribution. Elucidating servitization in the global distribution context may help manufacturers to grasp the opportunities this ongoing change presents.

### 2.2. Servitization of manufacturers

Vandermerwe and Rada (1988) launched the servitization concept in the late '80s. In servitization, manufacturing companies augment their product-based offerings with industrial services such as spare parts delivery, repair and maintenance, consultancy and training (Oliva & Kallenberg, 2003; Vandermerwe & Rada, 1988). Instead of product features and technical specifications, customer value is emphasized. However, the topic of extended offerings has been discussed in several domains in addition to the servitization domain. For example, product-service systems (PSS) (Meier, Roy, & Seliger, 2010; Tukker, 2004) and integrated solutions (Brax & Jonsson, 2009; Davies, Brady, & Hobday, 2006; Hakanen, 2014) are related and partially overlapping domains to the servitization domain.

The servitization concept has been studied from numerous angles such as its drivers, features, implications, and related challenges (e.g. Baines et al., 2009; Lay, 2014). Servitization involves not only developing offerings per se, but increasing customer focus and developing business relationships (Oliva & Kallenberg, 2003). Consequently, manufacturers move downstream in the value chain while service-focus increases (Wise & Baumgartner, 1999). Products are no longer merely pushed to the market but business customers are provided with customized solutions to their needs. The end result and value added for the customer are emphasized (Matthyssens & Vandenbempt, 2008). To be able to solve customers' problems and enhance value co-creation, the manufacturers need to thoroughly understand the business customers' context and needs (Hakanen et al., 2014). When manufacturers proceed with servitization and augment their offerings with services, it may change the way they operate in global distribution. However, previous research on distribution and marketing channels (e.g. Frazier, 1999; Gadde, 2014; Kalafatis, 2002; Olsson et al., 2013; Payne & Frow, 2004; Pimentel Claro & Oliveira

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