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Impact of Service Transition on After Sales Service structures of manufacturing companies

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Abstract

Since globalization has changed markets and the competitive situation, services are taking up an increasingly important role for manufacturing companies. Extending the service area accordingly offers the opportunity to develop new market potentials as well as increasing long term customer loyalty. One approach that describes this development is Service Transition and the related goods-to-services continuum on which a manufacturing company moves. But the different influences and changes in the Service Transition to the individual subareas of the After Sales Service are not considered enough. The study presented in this paper shows that the effects of the changes caused by the Service Transition to the subareas of the After Sales Service vary widely. Future models dealing with the Service Transition of manufacturing companies should take these results into account. This is an appropriate way to develop and implement effective measures for the management of the Service Transition of manufacturing companies.

Keywords: After Sales Service; Service Transition; Full Service Provider; Servitization; Product Service Systems

1. Introduction

In recent years manufacturing companies have been faced with a multitude of challenges [1]. Globalization has intensified the competitive situation. Product-related quality and cost level have assimilated on international markets. [2, 3] For this reason, only focusing traditional unique selling points e.g. price and quality is not sufficient to ensure long-term comparative advantages. [4, 5]

Especially manufacturers of primary products in highly industrialized countries are forced to search for new opportunities for diversifying in competitive markets. Downstream sectors like After Sales Services promise chances to develop potentials and realize additional unique selling points. [6, 7] That is why After Sales Services are gaining importance by realizing growth opportunities, exploring new markets and ensure customer retention. [8] Product Service Systems, Full-Service-contracts, operator contracts and therefore hybrid value added systems provide the opportunity for supporting customers in entire product life cycle. [9]

In the last years these trends have been observed by many fields of research and are listed under a variety of headings. Some examples are Servitization, Service Infusion, Service Transformation and Service Transition. [10–14] Despite the different concepts, all approaches describe the same development. More than ever services will become much more important for manufacturing companies in the future. Likewise, the primary product will to be used as an enabler for a variety of services.

To manage this shift of priority a plurality of concepts have been developed. [1, 2, 8, 11, 13–21] This paper gives a short review of some selected concepts. However, it tries to consider a perspective that was disregarded in the past. The micro-perspective of organizational structures and operating systems of existing After Sales Service subareas in manufacturing companies, which will increase their service offers were not

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taken sufficiently into account in detail. With the present analysis, the research gap will be shown.

For the analysis first there is a short review of the theoretical background of Service Transition. Followed by an analysis of the impact of Service Transition on traditional After Sales Services of manufacturing companies. At the end some recommendations for action in After Sales Service operating systems and work organization in Service Transition process is presented.

2. Service Transition of manufacturing companies - Changing structures and merging perspectives

This paper is based on the approaches of Chase, Oliva et al. and Vargo et al. According to their approaches, manufacturing companies are located on a continuum between the extreme poles of pure product suppliers and service solution providers. [4–6,14] The Service Transition is thus understood as a transitional movement of a primary product manufacturer on this continuum. Solution providers integrate components and services, produced internally or by third parties, for the customer's needs [22].

Reasons for extending the service business can be summarized in financial benefits, strategic advantages, economic pressure, marketing opportunities and environmental rationale [2].

Fang et al. and Fundin et al. showed in their studies that companies with positions further direction of a service solution provider have a higher profit margin [23, 24]. However, the development trajectory that an expansion of service offer does not automatically lead to an increased turnover is described by Gebauer et al. as service paradox [25]. The concept of the service paradox is thus to be understood as a comprehensive, indistinct description of cause-effect relationships with negative effects for primary product manufacturers in the Service Transition. In this context, Neely has found in an investigation of 12521 companies that a disproportionately high number of insolvent companies have pursued an expansion of their service business [26]. The Service Transition of manufacturing companies can only be achieved if the challenges of the service paradox are managed. Nudurupati et al. and so Bains et al. prepared a review of Servitization research and pointed challenges of Servitization out [27, 28]:

- Customer Perspective – Understanding the customer needs.
- Redefining the Interface – How to cooperate with the customer.
- Revenue, Pricing and Selling – How to economically price the offerings.
- Product-Service System Design – What are the tools and techniques for designing servitized offering.
- Supply Network – How to redefine and structure the relationships with suppliers.
- Organizational Architecture – What structural and infrastructural changes required in the organization.
- Performance Measurement – How to measure value-in-use through life.
- Cultural Transition – What people skills and behaviors are required and how to source or develop them.

The studies of Ahamed et al. and Buschmeyer et al. similarly pointed out that organizational factors have a significant influence on the success of implementing a servitization strategy. Most important factors are leadership, vision, marketing, clear and operationalized goals, a clear vision of changes as well as personal development. [1, 2]

There are different ways to locate manufacturing companies on the goods-to-services continuum. Current research approaches focus either on a value and accordingly output centered perspective or on the other hand on organizational perspective. Tukker defined eight different types of product-service systems with different characteristics of value [16]. Oliva et al. as well as Fundin et al. defined positions with different attributes [12, 24]. Brax et al. developed a meta-model of Servitization to make different approaches comparable. As a result there are eight generic value configurations [29].

Table 1: Categories of value and output centred approaches [12, 16, 24, 29]

Tukker	Oliva et al./Fundin et al.	Brax et al.
Product-related service	Position A: Focusing on core goods	Products with limited support
Advice and consultancy	Position B: Consolidating product-related services	Installed and supported products
Product lease	Position C: Entering the installed bae service market	Complementary services
Product pooling	Position D: Expanding to relationship-based or process-centered services	Product-oriented solution
Activity management	Taking over end-users operation	Systems leasing
Pay per unit use		Operating services
Functional result		Managed service solution
		Total solution

In contrast, however, Gudergan et al. developed a capability maturity model for evaluating the readiness to transform towards a product-service system with an additional focus on organizational attributes [17]. Martinez et al. pointed out that there is no single-path in servitzation [15]. But there is no approach that describes changing structures through servitization in detail [30]. The studies found also that clear and operationalized goals and a clear vision of changes have a major impact on the success of the transition. [17, 21, 30, 31]

The presented approaches illustrate a trend from the essential value and output oriented categories of Oliva et al., Tukker and Brax et al. in table 1 to holistic and interdisciplinary approaches. However, none of these approaches consider already existing subareas of After Sales Service subareas in detail like customer service, spare parts