



What service transition? Rethinking established assumptions about manufacturers' service-led growth strategies



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ABSTRACT

Both academics and practitioners emphasize the importance for product firms of implementing service-led growth strategies. The service transition concept is well established, namely a unidirectional repositioning along a product-service continuum—from basic, product-oriented services towards more customized, process-oriented ones—ultimately leading to the provision of solutions. We challenge this service transition assumption and develop alternative ones regarding how product firms should pursue service-led growth. Using 'problematization methodology', and drawing on findings from thirteen system suppliers, we identify three service-led growth trajectories: (1) becoming an availability provider, which is the focus of most transition literature; (2) becoming a performance provider, which resembles project-based sales and implies an even greater differentiation of what customers are offered; and, (3) becoming an 'industrializer', which is about standardizing previously customized solutions to promote repeatability and scalability. Based on our critical inquiry, we develop two alternative assumptions: (a) firms need to constantly balance business expansion and standardization activities; and (b) manage the co-existence of different system supplier roles. Finally, we consider the implications for implementing service-led growth strategies of the alternative assumptions.

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1. Introduction

If a key account customer expresses new needs, customization is always a possibility. What is challenging is to "industrialize" and offer extensive service to other non-key account customers; that is, to most of our customers.

[Senior Executive, Fortune 500 firm]

Throughout the last few decades, a growing number of researchers have explored why and how system suppliers and other product firms implement service-led growth strategies, expanding and customizing their service offerings. Consequently, through an expanding body of literature, our understanding of the challenges and opportunities these firms face has increased, and progress has been made in terms of formulating definitions and creating useful frameworks. However, as indicated in the above quote by the executive of a system supplier, many firms are struggling with both strategic and operational choices, and there

remains much to learn to best practices for implementation and effective customer interfaces (Parvinen & Möller, 2013).

Interestingly, both academia and practice emphasize the importance of and difficulties associated with *transitioning* from a so-called product business to a service business (Fang et al., 2008; Gebauer et al., 2005; Harmon & Laird, 2012; Kessler & Stephan, 2010; Matthyssens & Vandenbempt, 2010; Raddats & Easingwood, 2010; Ulaga & Loveland, 2014), product-service system business (Baines et al., 2009; Dahmani et al., 2014; Martinez et al., 2010), hybrid offering business (Ulaga & Reinartz, 2011), or solution business (Evanschitzky et al., 2011; Ferreira et al., 2013; Paiola et al., 2013). Essentially, the service transition concept, as established in Oliva and Kallenberg's (2003) path-defining study, assumes that firms undertake a unidirectional repositioning along a product-service continuum: from basic, product-oriented services towards more customized, process-oriented ones, ultimately leading to the provision of solutions. As a result of this assumption, the further firms move along the transition continuum, (a) the greater relative importance of services increase and the less the relative importance of tangible products, and (b) the customer relationships become long-term and more intimate.

Although most studies adopt the transition process as an underlying theoretical assumption, it seems that few firms actually make a complete downstream transition in practice (Storbacka et al., 2013).

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Kowalkowski et al. (2012) point out that service-led growth and expansion is multifaceted and does not necessarily imply a unidirectional development towards the provision of more extensive services. Furthermore, Windahl and Lakemond (2010, p. 1289) argue that “firms experiment concurrently with a number of offerings. Basic and advanced service agreements and integrated solutions co-exist along with the sale of tangible goods.” In fact, since many of the studied firms are system suppliers,¹ they are used to combining products and services, and generally have close and long-term relationships with their key customers.

Consequently, in this paper, we “problematize” the service transition concept (i.e., a unidirectional, advancement from less to more advanced services along a product-service continuum) and its operational importance for system suppliers. We argue that the concept may be simplistic, possibly leading to both erroneous theoretical and managerial implications. Our objective is to challenge the established assumption underlying the service transition concept and re-conceptualize how system suppliers focus on service-led growth strategies. We use Alvesson and Sandberg's (2011) ‘problematization methodology’ for our assumption-challenging investigation and show that system suppliers seek growth, also through other service strategies.

Drawing on a growing body of literature, as well as on five independent research projects with thirteen system suppliers, we identify three distinct service growth trajectories, including both the expansion and standardization of service offerings to become: (1) an availability provider; (2) a performance provider; and, (3) an ‘industrializer’. Based on these findings, we develop and evaluate two alternative assumptions, showing that the various service activities are more multifaceted than previous research suggests. Firms need to balance business expansion and standardization activities, and they concurrently perform a number of roles (thus pursuing parallel business models), rather than switching serially from one role to another.

In the remainder of this article, we first review the existing literature. We then present the research process and methodology, and propose our alternative assumptions. Finally, we discuss both the theoretical and managerial implications, concluding with limitations and avenues for future research.

2. Literature review

In this section, we identify and discuss the relevant literature (B2B services and solutions) as well as the broader context (system suppliers). We show that the service transition concept is especially prevalent in the more recent literature, whereas the earlier literature on system suppliers generally provides a somewhat more multifaceted discussion (although it does not study growth trajectories explicitly).

2.1. From products to solutions: the underlying ‘service transition’ assumption

The implementation of service-led growth strategies has become an important research topic; scholars and practitioners from various disciplines and industries argue that firms need to navigate the transition from products to solutions through service development. That is, transitioning proceeds from less to more advanced services and ultimately solutions, along a product-service continuum. Empirically, this shift is frequently referred to as “service infusion” (Kowalkowski et al., 2012; Ostrom et al., 2010) or as “servitization” (Vandermerwe & Rada, 1988; Visnjic Kastalli & Van Looy, 2013). Theoretically, marketing scholars emphasize the need for a ‘service’ perspective for all firms, arguing that service rather than goods (should) form the basis of economic

exchange (Grönroos, 2011; Gummesson, 1994; Normann, 2001; Vargo & Lusch, 2004).

In general, the literature argues that service transition takes place in different dimensions, often formulating two-dimensional frameworks (Ferreira et al., 2013; Mathieu, 2001; Matthyssens & Vandembemt, 2008, 2010; Oliva & Kallenberg, 2003; Penttinen & Palmer, 2007; Raddats & Easingwood, 2010; Ulaga & Reinartz, 2011). We have identified three prevalent and interrelated transition dimensions: (1) from product towards process-oriented services (Antioco et al., 2008; Eggert et al., 2014; Mathieu, 2001; Oliva & Kallenberg, 2003; Raddats & Easingwood, 2010; Ulaga & Reinartz, 2011; Windahl & Lakemond, 2010); (2) from standardized towards customized services (Lightfoot & Gebauer, 2011; Matthyssens & Vandembemt, 2010; Penttinen & Palmer, 2007); and (3) from transactional towards relational services (Oliva & Kallenberg, 2003; Penttinen & Palmer, 2007). Regardless of terminology and academic discipline, empirical studies as well as more conceptual papers, generally adopt the service transition as an underlying—explicit or implicit—assumption.

The recommendations for implementation that are linked to these transition dimensions are typically described as gradual (Ulaga & Reinartz, 2011) and sequential, due to the complexity associated with distinct parallel changes (Oliva & Kallenberg, 2003; Penttinen & Palmer, 2007). The transition from a transactional to a relational nature of the customer–provider relationship encourages a gradual implementation of increasingly proactive, flexible, customized, and long-term relationships with customers and partners (Brax & Jonsson, 2009; Matthyssens & Vandembemt, 2010). The transition from product to process-oriented offerings highlights the need to gradually move towards more complex offerings, add service components, and change the earning logic from discrete to continuous cash flows (Raddats & Easingwood, 2010; Storbacka et al., 2013; Ulaga & Reinartz, 2011). With a more complex and extensive offering, the coordination costs and operational risks typically increase (Nordin et al., 2011), but if the firm can manage these factors, there is an economic incentive to extend the total offering. When (and if) the firms achieve a complete transition in all dimensions, they are generally regarded as offering solutions rather than merely providing some basic and advanced services.

While some of the early solutions literature draws on system selling and the industrial marketing literature, many of the more recent studies (on system suppliers) fail to acknowledge and develop these earlier contextual and conceptual contributions (Davies et al., 2007; Nordin & Kowalkowski, 2010). A notable exception is Helander and Möller (2007), who argue that scholars need to integrate the discussion on relationships and networks with that on systems selling and service marketing. They differentiate between three system-supplier roles which they link to the strategic position of the firm and to customer strategies: (1) equipment supplier; (2) availability provider²; and (3) performance provider, a distinction which corresponds to Windahl and Lakemond's (2010) categories of offerings (maintenance, operational, and performance offerings), Tukker's (2004) categories of system models (product-oriented, use-oriented, and result-oriented), and Kindström and Kowalkowski's (2014) categories of revenue models (input-based, availability-based, and performance-based).

An equipment supplier provides services that are directly related to its equipment (i.e., product-oriented services). This role responds to a customer strategy that remains fairly independent of suppliers (Helander & Möller, 2007). The firm focuses on product sales, and services are provided to maintain and support the product business. The services are product-oriented, transactional, standardized, and input-based (a promise to perform a deed (Ulaga & Reinartz, 2011)).

Availability providers can offer service activities throughout the system lifecycle and they use services to differentiate themselves from

¹ We define system suppliers as manufacturers providing large-scale, complex systems to industrial customers (Helander & Möller, 2008); hence, not referring to so-called system integrators only (Prencipe et al., 2003).

² Due to the ambiguity surrounding the concept of solutions (Nordin & Kowalkowski, 2010), we refer to the ‘solution provider’ role as ‘availability provider’, which we regard as clearer.

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