Customer orientation as a development driver in manufacturing: the case of ‘reverse’ servitization

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Across many industries, manufacturing companies are extending their product offerings with services. This phenomenon, also known as servitization, extends the reach of the manufacturer ever closer to the customer. Several researchers have argued that servitization is a unidirectional, stepwise process that starts from the adding of simple services to the total offering. However, our case studies indicate that there are more alternatives in the process of servitization than usually described in literature. In our in-depth case study, we focus on the issue whether the prevalence of one general process type, starting from simpler to more demanding services, can be questioned.

1. Introduction

Servitization – adding services to material products – is today widely recognized as a way to create new value in the industrial context (Vandermerwe & Rada 1988; Neely 2008; Sawhney et al. 2004; Baines et al. 2009). Literature on this topic has increased our understanding on the reasons, procedures and implications of service-led competitive strategies. To succeed with servitization, manufacturers need new guiding principles, structures and processes for their production and support operations (Oliva & Kallenberg 2003; Baines et al. 2009; Voss 1992). These may differ quite much from those associated with traditional manufacturing (Baines et al. 2009).

Several researchers have suggested that servitization is a unidirectional, stepwise process that starts from the adding of simple services to the total offering, which earlier has consisted of material products only (Oliva & Kallenberg 2003; Gebauer 2008a; Gebauer 2008b). Along with the accumulation of experience on service business, the manufacturer perceives the potential included in this business and increases the versatility as well as the number of services in the portfolio (Oliva & Kallenberg 2003). In practice, the argument implies that servitization usually starts from after sale services – repair and maintenance – linked to the products sold. These ‘installed base services’ may also include manufacturing management and continuous supply of spare parts. When the manufacturer’s understanding of the maintenance strategies of customers and of the causes of malfunction grows, the offering is supplemented with more advanced services, such as process optimization, preventive maintenance, training and consultancy (Kotler 1997; Tuli et al. 2007; Mathieu 2001).
According to the proponents of the above-described view, there are several reasons for the stepwise nature and the related cautiousness in servitization. Central reasons are those many changes that are required in the organization, delivery processes, strategies, and in the corporate culture (Oliva & Kallenberg 2003; Baines et al. 2009; Voss 1992; Chase & Garvin 1989). A particularly important challenge is attitudinal changes, which are necessary but time taking. It is not rare that an industrial company has made a decision about rapid proceeding towards service business and included a strong service-orientation in its strategy, but practical steps are slow due to the ambivalence towards services among the personnel (Gebauer & Friedli 2005).

Despite these challenges, our case studies\(^1\) indicate that there are more alternatives in the process of servitization than usually described in literature. We have found that a ‘servitizing’ manufacturer may provide consultancy-type advanced services right from the start, hand in hand with after-sales services, or the process can even be ‘reverse’: it starts from advanced services and after-sales services are adopted only later. Further, we have perceived that customer-orientation is a central driver for this growing versatility of the phenomenon of servitization. The more the manufacturer aims to genuinely understand its customers, the quicker it faces the need to provide many types of services: not only those that secure the proper functioning of the installed base, but also those that support the customers’ business in a broad sense.

This paper discusses new phenomena in servitization in more detail. We focus on the issue whether the prevalence of one general process type, starting from simpler to more demanding services, can be questioned. We also examine what are possible enablers for a less stepwise process – which implies the quickening of servitization. From now on, the paper has been structured as follows. The second section presents the central arguments of the ‘traditional’ view concerning the nature and success factors of the servitization process. The third section introduces two interlinked streams of literature that describe phenomena challenging the ‘traditional’ view: literature that analyses the transfer from separate services to solutions business and literature that points out the growing versatility of the types of industrial services. Our own empirical case study, whose conduct is described in the fourth section and findings in the fifth section, takes a step further and aims to show that also the servitization processes – not only industrial services – are versatile, and this versatility is first and foremost a consequence of the increasing customer-orientation. The paper ends with some concluding remarks and suggestions for further studies.

\(^1\) These case studies, on which this paper is based, have been carried within two research projects in Finland: Innovation Integrated in Service Operations (ISO) and Kibification of Industrial Services (KIBSIS). The author has been involved in the former project as a researcher and in the latter project as the project manager. The former project was conducted 2007-2010; the latter started 2010 and continues until the beginning of 2012.
2. The ‘traditional’ view on the process of servitization

2.1. Servitization and its success factors

The servitization of manufacturing organizations is a phenomenon recognized over twenty years ago. Among the early researchers describing this phenomenon in detail are Vandermerwe and Rada (1988). They identified several reasons for the transfer of industrial business towards services. For instance, with services firms can lock out competitors, lock in customers, and/or increase the level of differentiation. Summarising the later literature, we can identify three groups of reasons for the move towards service-oriented business in manufacturing: 1) economical reasons, 2) customer needs, and 3) the competitive advantage that services can provide. The economic arguments include the claims that services have higher margins than goods (Anderson et al. 1997) and provide a more stable source of revenue than goods due to their resistance against the economic cycles (Quinn et al. 1990). The pressures from customers are linked to the specialization leading to the outsourcing of non-core functions such as maintenance of capital equipment (Oliva & Kallenberg 2003). The competitive argument is based on a specific characteristic of services: services are usually difficult to imitate and less capital dependent. Services are also often presented as a way for manufacturers to escape the typical problems of matured business (Wise and Baumgartner, 1999; Shepherd and Ahmed, 2000; Davies, 2003a and 2003b).

In addition to the economic potential, customer needs, and the provider’s strategic intentions, environmental reasons are today drivers of servitization (Oliva & Kallenberg 2003); (Neely 2008). Earlier, manufacturing companies did not worry about the breaking of the machinery sold because it opened the opportunity to offer additional services. Nowadays they aim to lengthen the life span of machines with sophisticated maintenance solutions. While this change in attitudes is linked to the general pursue for sustainability, it also reflects specificities in the development of manufacturing. Today the manufacturers increasingly own the installed base and the customers only use it. Thus, the possible breakdown is a cost of the provider company, which creates a natural interest for it to reduce this cost. From the customers’ point of view, the main reason for buying services from servitized manufacturer is the shared risk (Neely 2008). Even though the customer does not necessarily own the machinery, it is interested to secure that it works without stoppages or malfunctions.

Even though servitization of manufacturing seems to be reasonable from the perspectives of both the supplier and the customer, it implies major challenges. Consequently, studies indicate that only a few manufacturing companies have been successful in this transfer (Oliva and Kallenberg, 2003). Reasons for problems are, among others, differing opinions within the company about the economic potential of services and the lack of qualified resources for service provision. In addition, weaknesses in strategic decision-making may lead companies to hesitate the adoption of a strong service orientation. Researchers have analyzed the ways in which companies can integrate products and services in order to achieve efficiency and effectiveness (Sawhney et al. 2004; Neely 2008; Wise & Baumgartner 1999;
Baines et al. 2009). Gebauer et al. (2006) have listed the following factors as prerequisites for success:

1) Conducting a market-oriented service development and creation of clearly defined process of service development

2) Extending the service offerings by starting with product-related services and continuing with services that support the customer in a more broad sense

3) Establishing procedures for relationship marketing to create identity and reputation for the service provider

4) Defining a clear service strategy to encourage appropriate organizational arrangements and resource allocation

5) Establishing a separate service organization with a profit-loss responsibility

6) Creating a service culture or service related climate.

These authors specify that the achievement of the first criterion requires information on customer needs as comprehensively as possible. The service development process has to be transparent and systematic. An important point linked to the extension of the offering is the change of pricing: the main direction of the change should be from task-specific to fixed prices over time. Relationship marketing includes both internal and external issues, the former being important the acceptance of services within the firm and the latter for communicating the company's service capability. Interactive marketing is valuable in particular because it enables the company to maintain continuous contact with the customer.

The purpose of a defined service strategy is to change the role of services – from services as a marketing tool to conscious service offerings. This change can be supported by involving all relevant stakeholders in the company to promote it. The service strategy should also be divided into quantifiable targets. The establishment of a separate service organization should be carried out in the way that makes clear the profit-loss responsibility. The emergence of a genuine service culture is probably the most troublesome task because firms under the transition have to simultaneously take care of product manufacturing and foster the culture linked to it. According to Gebauer et. al. (ibid.), the cultural change should mainly focus on transforming the thinking about services from ‘non-value added’ to ‘value-added’.

2.2. The process of servitization

Repair and maintenance functions have always been mandatory for product owners. However, originally, the customer was itself responsible for the maintenance of its equipment, and later on, it outsourced this function to specialized service providers that entered the market. The newest stage is the functioning of the seller of products (the equipment manufacturers) as service providers. According to Oliva and Kallenberg (2003), the use of these ‘original equipment manufacturers’ (OEM) is advantageous due to three reasons: 1) They have lower customer acquisition costs since they have to build a relationship with the customer already when they sell the machinery. 2) They have lower knowledge acquisition costs since they know how their machinery works: they have designed it themselves. 3) They have lower capital
costs since usually they manufacture the spare parts themselves or have ready-made relationships with subcontractors. This also applies for the upgrades, on which the equipment manufacturers have technological advantage.

Oliva and Kallenberg (2003) have also crystallized the idea that servitization starts from simpler, product-related services and proceeds step by step towards more demanding, ‘pure’ services. They have built a framework consisting of a product-service continuum, where the installed base (IB) forms the starting point. It includes the products sold to and currently used by the customer. The service development starts from the ‘pure’ product and services built around it as ‘add-on’, and then moves towards services that are more sophisticated, while the product itself plays a diminishing role and finally is an ‘add-on’. Figure 1 presents this widely used framework.

The stepwise process presented by Oliva & Kallenberg (2003) has been widely recognized and cited among researchers. Later on the literature has been concentrating mainly on identifying the possible challenges and actions that the transformation might require (Brax 2005; Gebauer & Friedli 2005; Martinez et al. 2010; Davies et al. 2006; Sawhney et al. 2004; Kindström & Kowalkowski 2009). Based on the case studies Oliva and Kallenberg (2003) presented a more detailed view on the steps towards integrated solutions. Figure 2 illustrates their view.

The framework is based on an empirical study that mapped the transition process of eleven equipment manufacturers. The study was conducted using qualitative data, which contained mainly interviews and archives. Each of the sample organizations was placed on the product-service continuum.

Article has been published in *International Journal of Service Industry Management* and been cited 135 times since its publication in 2003 (source: SciVerse Scopus the world’s largest abstract and citation database of peer-reviewed literature and quality web sources).
According to Oliva and Kallenberg, the first action that a solutions-oriented company must take is to establish a service organization, under which all the services are transferred. This enables the financial measuring of service profitability and fosters the growth of service culture in the organization. The second stage, which includes the entering to the installed base service market, contains actions such as analysis of the IB market and the creation of service infrastructure to respond to local service demands. In the third stage – in the expansion to relationship-based services – the formation of service contracts is one central task. It requires risk taking and new pricing methods, as the life cycle of the product is not usually well known. The fourth stage includes the expansion to process-centered services. This new ‘wave’ of service operations in manufacturing organizations means that companies develop consulting and training types of services, and also invoice these services that earlier have often been provided free of charge. The last step, taking over some of the end user’s operations is an emerging practice today; the capital investments required from the provider slow down its rapid spread.

3. Phenomena challenging the ‘traditional’ view

3.1. Transfer from separate services to solutions business

One of the most important and generally applied changes in today’s business models is that the customer has been raised to the centre of strategy. The main question set today is more and more often: what new value a firm can offer to its clients and how it can do this. Outperforming the competition and profitable growth are the result of succeeding in the respective value offerings. The strategy based on value offerings considerably extends the creative scope of individual firms and provides them with a wide range of options even irrespective of the general situation in their industry. A firm need not compete for a share of a given demand, but it can redefine clients’ problems, discover hidden demand or create new demand. (Hoover et al. 2001; Kim & Mauborgne 1999)

In this kind of a framework, it is not enough to pay attention to individual goods and services, but total customer solutions are under the spotlight. Howells (2004) has introduced the term ‘service encapsulation’ as a trend in the servitization of manufacturing firms: manufactured products become encapsulated by services when the firm moves towards selling the operational capacity of the products. According to Howells, this can be done on two levels. Services can be combined with the physical product in a way that in the literature has been termed ‘integrated solutions’ (Wise & Baumgartner 1999; Brax & Jonsson 2009). Alternatively the solution may be offered as a pure service. These practices highlight the significance of the life cycle perspective: the service provision becomes a continuing process involving a long-term customer contact. Equipment manufacturers often aim to extend their customer relationships to cover the whole life cycle of the product (Howells 2004).

The many components that are included in integrated solutions, as well as the long-lasting nature of the client relationship, require the acquisition of complementary
assets, capabilities, products and services. These can be purchased from partners and sub-contractors or they can be developed in-house via organic growth or acquisitions (Kim & Mauborgne 1999). When taking these steps, it is essential to ensure that customer understanding is the genuine starting point. The provider has to analyze, not only which products the customer company purchases and why it purchases them, but also where and how the products are acquired (Hoover et al. 2001). In addition, it is important to take into account the variety of the negotiating parties. Even in the same customer organization, the negotiating party is often different when the purchase concerns equipment compared with the situation where the purchase concerns services. (Alam & Perry 2002; Alam 2006).

Some suggestions and models describing the servitization process starting from a strong customer-oriented view and including the present transfer towards solutions business (Sawhney et al. 2004)) suggest that companies must start their servitization process by redefining their markets in terms of customer activities and customer outcomes instead of products and services. By mapping the customer-activity chain and relating the map to a service-opportunity matrix, managers can systematically explore opportunities for new services. (Brax 2005) points out in that adding services one by one to the portfolio might be hazardous, because this practice maintains the earlier goods dominating attitudes and business models. Therefore, the transition should be somewhat more comprehensive.

According to the previously listed literature, the transition from products to services has been seen as a less stepwise process by its nature. Terms integrated solutions, value offerings and recognition of strong customer involvement has questioned the linearity of procedures in the servitization. The research has revealed that it is not about the question of goods and services, goods or services, but rather about the full package, including product and service elements. However, the idea of moving from simple product-service offerings, towards more intelligent products and services is still prominent. For example, Oliva & Kallenberg (2003) suggest that the second step in servitization is the installed base service provision. To clarify the perception of simple and more advanced services we will now briefly introduce the literature that has been focusing on classifying different types of industrial services.

### 3.2. Growing versatility of industrial services

Services related to products have been categorized in various ways. A traditional classification is based on the relationship to sales: whether the service is offered before, during or after the sales (Londe 1976). Kotler (1994) distinguished two broad categories: maintenance and repair services, and business advisory services. Recent research has focused on the type of the relationship that is required in order to deliver services to the customers (Tuli et al. 2007), and on the target for which services are delivered (Mathieu 2001). In her classification, Mathieu took into account the direct recipient of the service, the intensity of the relationship, and the level of customization that was required in the delivery. Based on these factors, she divided services into two groups: services supporting the product (SSP) and services supporting the customer (SSC).

Paloheimo et al. (2004) have further divided SSC into services that support the use of products in customers’ processes (SSCP) and services that support customers’ business (SSCB). We clarify this categorization by broadening SSCP to mean the
customer’s production processes also more generally, in addition to the processes that are linked to the use of specific products. Table 1 summarizes this modified categorization and gives examples of individual services that each of these categories might include.

Table 1. Categorization of industrial services (modified from Mathieu, 2001a and 2001b and Paloheimo et al, 2004)

<table>
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<th></th>
<th>SSP</th>
<th>SSCP</th>
<th>SSCB</th>
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<tr>
<td>Purpose of the Service</td>
<td>Enable the proper functioning of the product</td>
<td>Ensure the optimal usage of the product in its operational environment, minimize shutdown time of the plant</td>
<td>Enable the growth and success of customers’ business</td>
</tr>
<tr>
<td>Type of relationship with customers</td>
<td>Transactional relationship</td>
<td>Performance partner</td>
<td>Strategic partner</td>
</tr>
<tr>
<td>Type of information required for the delivery</td>
<td>Basic information of the products and customers</td>
<td>Broader information of the products and customers as well as of production processes and operative environment</td>
<td>Broad information of customers’ value chain and the ways in which different types of services may benefit it; information of customers’ strategy</td>
</tr>
<tr>
<td>Examples of the services in the category</td>
<td>On call repair, spare parts</td>
<td>Preventive maintenance, scheduled inspection, availability contracts, modernization</td>
<td>Consultancy, training, financial solutions, business optimization, integrated solutions</td>
</tr>
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The idea that the development in manufacturing proceeds from simpler to more advanced services is also included in the categorization of different industrial services. In Mathieu’s framework, the central reason for this kind of a process is the organizational changes required (Mathieu, 2001b). She introduces the concept of organizational intensity, which describes the strength and scope of the service business from the organization’s point of view. When a manufacturer moves from services that support the use of products towards services that support the customer’s business, it has to adopt a strategically new attitude and finally cultural changes in the organization.

The categorization approaches presented follows the same line of thinking, as does the servitization literature. The simple SSP type of services forms the base for service development. As the company then gains experiences and can intensify the relationship with the customer, it is ready to introduce services that are more advanced. To simplify, the company starts out with services for its installed base, moves then to services that take into account the production processes of the customer and finally gains enough confidence and relationship based trust that is able to offer the most advanced type of services such as consulting and training. The transition from SSP services to SSCB services intensifies the relationship and at the same time moves providing company further from the initial product offering.
4. Introduction to the case study

4.1. Conduct of the study

Our study has applied an inductive approach, where earlier literature has formed the theoretical background and the starting point for questions and comparisons. We have conducted a single-case case study; the case is one of the companies participating in the above-mentioned KIBSIS-project (see footnote 1). We have selected the case study method because it is appropriate for exploratory and theory building research and for dealing with ‘how’ type questions (Yin 2009). In our study, this point means asking ‘how servitization has happened in our case company?’ We apply an in-depth case study approach, as this provides an opportunity to get deep understanding of research topics, which are still unclear in many respects (Dyer & Wilkins 1991). We used an extreme case to create theoretical constructs and propositions from empirical evidence (Eisenhardt & Graebner 2007). To reduce the bias, we have interviewed informants who view the focal phenomenon from diverse perspectives (Eisenhardt & Graebner 2007). These informants include organizational actors from different hierarchical levels and functional areas. In addition, the use of researchers from different disciplines allowed different avenues of inquiry to be pursued in the data collection (Meredith 1998).

The data was collected using semi-structured interview protocol. The list of interview topics focused on determining how and why the case company had started to deliver service offerings and what kinds of challenges this was posing for its operations. In addition, we included topics about desires for the future, especially expectations concerning the service business. The case study was carried out in spring 2010 and is mainly based on 20 interviews. The data also includes observations at the company workshops, company documents and some public data. Triangulation (Yin 2009) was pursued by comparing the interview data, workshop memorandums and archives. All interviews were recorded, transcribed and analyzed using open coding approach (Strauss & Corbin 1998). After the analysis, the results were presented to the company representatives in a common session. This session was interactive so that the company representatives were able to react to our results and make corrections if we had misunderstood some specificities of their company. In this way, we pursued the increase of the validity of our results.

4.2. Characteristics of the case company

The unit of analysis in our study is a family-owned manufacturing company, which designs, builds and delivers integrated product-service offerings. The company operates globally, having activities in 23 countries. It is a specialist in products, services and solutions targeted to secure healthy and comfortable indoor climate and indoor environment. The company also aims to create indoor environments that are energy-efficient and sustainable. The turnover in 2009 was approximately 171 million and the number of personnel 1150 across the globe. Headquarters are in the US and Finland. Production facilities are located in France, Germany, Hungary, Finland, the UK, the US, Canada, and Malaysia. Company has five separate product categories
and five specialized divisions: commercial and public buildings, commercial kitchens and restaurants, industry, ships, vessels and offshore installations.

The company was founded in late 1960s and was from the beginning a pure manufacturing company with its own production facilities. In the beginning, the growth of the company took place in the domestic market. One of the main targets was to become international from the outset, hence export activities commenced at a very early stage in the history. From the very beginning, company invested heavily on research and development. As a result, some breakthrough products facilitated a strong and profitable increase in sales. The turnover of the company has increased in a controlled and profitable manner.

While having its roots in manufacturing and high technology products, the company started to realize the economic potential of service business few years ago. Due to the successful history, based on ‘pure’ material products, the company management judged that the transformation into service and solutions business (which it also pursued) might be problematic. After the strategy work done in 2004 and 2005, the company evaluated that the fastest route to servitize would be through an acquisition. In 2007, it acquired a company whose core business was in knowledge intensive business services (KIBS). This company had operated since 2001, providing services for the same customer groups as the case manufacturer.

5. Research findings

The main finding from the present study is that our case company started its service business from advanced service offerings and only thereafter moved into the basic repair and maintenance services. As this finding is in contradiction with the general path that earlier literature has identified, we call this process type ‘reversed servitization’. In the following, we explain in a more detail how the servitization process took place in the case company: which were the central motivational factors and how the process proceeded.

5.1. Motivation for servitization via an acquisition

In 2005 when our case company had gone through its strategic planning process, it started to realize that services might be the next required step in advancement of the firm. The fact that production cost in the areas where the company had production are constantly increasing, the possibility to compete with price is not an option. Specialization and efforts in R&D had been paying off so far, but the in order to stay in technological edge, the company needed to be able to offer some additional value for customers. The ongoing service discussion among manufacturing companies had brought up ideas also in the company’s management team. Thus far, only few organizations had entered service business in the heating, plumbing and air conditioning (HPAC) industry. The clustered markets in HPAC seemed to offer interesting, yet troublesome ground for service operations.

The service plan started out, following the traditional perception of servitization, with basic services such as installation. One of the divisions had developed service
concept for installation of the equipment. The concept itself seemed to be applicable, but some of the major challenges were restraining the growth in the service operations. First, the customer that bought goods from our case company was not interested in services. The owners of the properties where the case manufacturer offered its products were different from the user. In order to be able to sell services, the company needed to approach new customers. Secondly, service business seemed to have low profits. Engineers that were designing sometimes half million euro equipment for the customers, were not interested in services worth of 5 000 euro or so. Thirdly, the service business seemed to be very resource demanding, and the case company was not willing to recruit people for field operations, at least in the near future. Finally, the company had strong roots in manufacturing and service operations seemed unfamiliar and required a different set of skills from the organization.

Soon after the identification of these problems, the case manufacturer found a small KIBS company that offered consultancy-type services to property owners. This KIBS company was specialized in airflow measurements. Its customer base included property owners as well as users. Through the acquisition, our case manufacturer achieved an access to this customer base, got necessary knowledge on service operations and was able to supplement its resources for service development. In 2007, the two companies merged and the KIBS company formed the fifth separate division in the manufacturer’s organization.

The initial burst for the servitization came actually from the operational environment, the HPAC industry. When the industry had been maturing, the solutions for the air-conditioning system, airflow management and ventilation started to bundle as well. Traditionally when a new building is build, the facilities are designed piece by piece. After the design, the contractor is installing the pieces, or the original equipment manufacturer is doing it with a separate contract or included with equipment price. When the building then is taken into use, the maintenance of the different facilities and equipment installed came from one provider, property maintenance firm or separately from individual suppliers. The traditional perception is that the property maintenance firms are preferred option for the customer, because this way it does not have to deal with several maintenance contracts. However, as the technology has rapidly increased the complexity of the air-conditioning systems, firms offering total maintenance for the property are not necessarily capable to take care of the whole system (including electrics, plumbing, air conditioning etc.). Therefore, the property maintenance firms or the end user has started to long for service concepts that are concerning not only the installation, but also the maintenance of equipment in the longer term.

5.2. Servitization actions

At the beginning, the acquisition of the KIBS company did not change much the case manufacturer’s organization. As mentioned earlier, the acquired company formed a division of its own, and even started with its own brand name. A year later the manufacturing company had informed its whole personnel about the new strategic intention, in which knowledge-intensive services played a major role. At this stage, the separate brand of the KIBS company was given up, i.e. the acquired company became a part of the manufacturer’s organization in marketing, too. This solution brought with it some challenges. One strength of the KIBS company had been its
independence: customers did not associate its brand to any known HPAC manufacturer, neither its services to the products provided by HPAC manufacturers. Merging with a well-known manufacturing brand led some customers to suspect that the consultancy provided was not objective any more. In spite of this, the merged company decided to keep the common brand – showing the service-orientation of the manufacturer was judged to be the most important message.

Internally, the merger seemed to progress without major problems. Since the KIBS organization formed a division of its own, it did not ‘disturb’ other divisions. One of the most problematic tasks, according to interviewed managers, was the naming of the new division. The initial name was ‘solutions’, but after a while the name was changed to ‘new ventures’. The reason for this change was the perception that also other divisions provided solutions more or less. Therefore, the division of new ventures was more acceptable among the employees. An important decision was to transfer the R&D functions and laboratories of the manufacturer under the new ventures division, so that KIBS people were able to get a closer look on technological inventions. With this arrangement, the company’s decision makers aimed to secure that service knowledge and service concepts are taken into account during the initial design of new products.

Summarizing the above-described development, we can state that before the merger the manufacturer had taken its first steps into services and the KIBS company was a service provider. During the early stages of common activities, the manufacturer started to increase its understanding on service business, and the KIBS division started to consider how products could enhance its service offering. The next step was the utilization of the customer knowledge and data base of the KIBS company for the building of relationship-based services, including service contracts.

After the KIBS company’s original service concepts had been adjusted to the manufacturer’s portfolio, the installed base services and other product related services started to emerge. The company was able to adjust the predesigned installed base service and found customers for the service from the acquired company customer base. The company also introduced new service concepts interlinked with different division product lines. For example, preventive maintenance contract for commercial kitchen ventilation.

Thus, the development in our case company illustrates a reverse development direction compared with those described in earlier literature. The company started from ‘pure’ services, which did not include any product attachment. In addition, the advantages linked to own equipment manufacturers (see the list by Oliva and Kallenberg, 2003; sub-chapter 2.2) seemed not to hold in our case company. The lower customer acquisition costs did not realize because the customers purchasing goods were different from the customers purchasing services. The lower knowledge acquisition costs did not hold true either. The manufacturer had not always an access to customers’ premises to measure whether the equipment worked as it was designed. After the equipment had been sold, the customer was responsible for using and maintaining it. Only the argument concerning the supply of spare parts with lower costs seemed to be partially valid, but even here the manufacturer was not able to utilize its advantage in full since it did not succeed with its own service concepts.
5.3. Future prospects

The servitization process of the case manufacturer has now continued about five years, three years of this being common development with the KIBS company. During these years after the merger, the company has shown progress in its service business, but obviously has not yet reached all the targets set. However, there is quite a large potential in the market according to the interviewees. For instance, the manager of the new ventures division is looking for extensive growth in the future. On the other hand, even though the vast majority in the organization nowadays accepts the position of the new ventures division, some additional internal marketing is needed. The following interview quotation of the division manager illustrates the present situation:

‘Transformation is a big challenge to us, but the fact that we have now 20 people who have been brainwashed to this (service business) is fantastic. When I came here, I felt very lonely. So now we have more people to spread the word.’

The progress in service development has been very rapid. An insight that the interviewees regarded as important was the appreciation of KIBS services, which was reflected in the solution to keep them as a separate, profit responsible unit. However, as the new ventures manager highlighted, it is not enough that the previous KIBS personnel have the service know how, but this knowledge has to be spread across the organization. What is needed in particular are success stories that would help people to trust on the new business area. The following quotation from division manager highlights this point:

‘Success stories, internal marketing, that is extremely important. And another big thing is training; we need training program to assist our key personnel.’

The case company has identified several challenges considering the service concept development, managerial knowledge in service business, and the corresponding know-how in organizational design. So far, the service business that the new ventures division has created works well, but the goals of growth have not been achieved. The interviewees listed the following critical challenges for the near future:

1) Creating an optimal service portfolio
2) Internationalization of services and solutions
3) Encouraging service orientation and creating service culture in the whole organization
4) Creating performance measures for service delivery (common for every division)
5) Finding key performance indicators for service operations (common for every division)
6) Identifying target customer groups for services and differentiating the offering accordingly

The list shows that even though the company operates globally, it sees internationalization of services as a challenging task. Much work is still to be done in the area of measurements and indicators regarding the service delivery and resource
planning. Even though the KIBS company brought with an ideal set of skills, competencies and knowledge to the manufacturer, the transformation takes time.

6. Concluding remarks

A servitization strategy is advocated as a means by which western manufacturers can answer the challenges of competitions in lower cost economies. The extant literature covering servitization, service operations, service marketing and services science offers a selection of frameworks, models and classifications. They suggest somewhat different approaches on how to configure a strategy for servitization and operative utilization of product service offerings. Common to them is the argument that when a manufacturing firm enters the service business, the process proceeds from product-related services towards offerings where the service element gradually increases. The first step is usually the provision of repair and maintenance of products (the installed base).

The recent development indicates that the customers of manufacturers – like customers in service sectors – require more and more versatile services, based on their unique needs. In literature, a growing need for advanced industrial services, such as optimization, training and consultancy, has been identified in addition to the installed base services. Another growing trend is the demand for integrated solutions, consisting of both material products and services. Curiously enough, these new phenomena have not led to the questioning of the idea that the servitization process would always proceed one way: from simpler to more demanding services.

In this paper, we have described a case in which a manufacturer started its service operations from ‘pure’ consultancy-type services and only thereafter moved towards product-related services such as maintenance and repair. A central solution enabling this ‘reversed servitization’ was an acquisition of a KIBS company. This acquisition brought with it many advantages compared with a situation where servitization is pursued via organic growth. Firstly, an acquisition releases the mother company from the tasks of new recruitments and training, which may be laborious tasks due to the human resource dependent nature of services. Secondly, an acquisition may bring with it ready-made customer relationships, the formation of which may also be a time-taking task, because the customers purchasing products might not necessarily be the same as the customers purchasing services. Thirdly, earlier experience in service business is beneficial due to the deep customer orientation (often co-production) typical of services and not common in manufacturing companies. Via the acquisition of a service company, a manufacturer gets knowledge of the factors that are linked to customer satisfaction in the service context.

Servitization via acquisition enabled in our case both quite a rapid servitization’ and a ‘reversed’ order in the service types adopted. We do not claim, however, that acquisition is the only way to speed up the servitization process. It is even probable that along with the generalizing practice of integrated solutions and the growing versatility of industrial services, there emerge several alternative ways to achieve this goal. Regarding the steps in the servitization process, we think that the ‘reversed’ order is the extreme case, and other alternatives emerge here as well. The main point indicated by our study is that there is not one – let alone linear – process in
which manufacturing companies transfer towards services. Several successful ways are possible, and these various ways should be explored in further studies in order to avoid too straightforward and normative statements, which earlier studies have included at least to some extent. They may even have described the early stages of servitization quite adequately, but today we need a more versatile view. Actually, many elements for this kind of a view can be found implicitly in the existing literature; the task for future studies is to analyze them explicitly. Empirical material is needed, too, to validate, question or modify our findings.

**References**


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