



# **Managing the transition from products to service business**

ICTEC

07.04.2008 Espoo

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# So, does having a thing make a difference?

- ✓ Bowen & Ford (2002), *Journal of Management*: *a number of important and defensible differences exist between managing a manufacturing firm and a service*
- ✓ Vargo & Lusch (2004), *Journal of Service Research*: *additional work needs to be done in rethinking the concept of value creation and distribution from a service perspective ... the resulting service-dominant logic of exchange has the potential to break marketing free from manufacturing.*
- ✓ Vargo & Lusch (2004), *Journal of Marketing*: *new perspectives of revised logic which focuses on intangible resources, cocreation of value, and relationships, are converging to form a new service-dominant logic of marketing*
- ✓ Lovelock & Gummesson (2004), *Journal of Service Research*: *marketing exchanges that do not result in a transfer of ownership from seller to buyer are fundamentally different from those that do*



- ✓ Chowdhury & Miles (2005), Journal of Business Research: *customer-induced uncertainty rather than the service/manufacturing distinction has specific influence on organizational design.*
  - ✓ Edvardsson, Gustafsson and Roos (2005), International Journal of Service Industry Management: *traditional definitions too narrow and the characteristics outdated – no need to defend services as being different from goods – service is a research area in its own right*
  - ✓ Stauss (2005), Managing Service Quality: *broadening the concept of co-production to include the use of physical goods leads to an abstract equating of matters that are manifestly different, and to an abandonment of important service-specific insights*
- **Managing Services business requires different competences than managing goods business**



# Finally - Two Schools...

“There are two logics or mindsets from which to consider and motivate a transition from goods to service(s).

The first, “goods–dominant [...] logic”, views *services* in terms of a type of [...] good and implies that goods production and distribution practices should be modified to deal with the differences between tangible goods and services.

The second logic, “service–dominant [...] logic”, considers *service* – a process of using ones resources for the benefit of and in conjunction with another party – as the fundamental purpose of economic exchange and implies the need for a revised, service–driven framework for all of marketing.

This transition to a service–centered logic is consistent with [...] a similar transition found in the business–marketing literature — for example, its shift to understanding exchange in terms value rather than products and networks rather than dyads.”

Vargo, S.L. & Lusch, R.F. (2008). From goods to service(s): Divergences and convergences of logics. *Industrial Marketing Management*. In press.

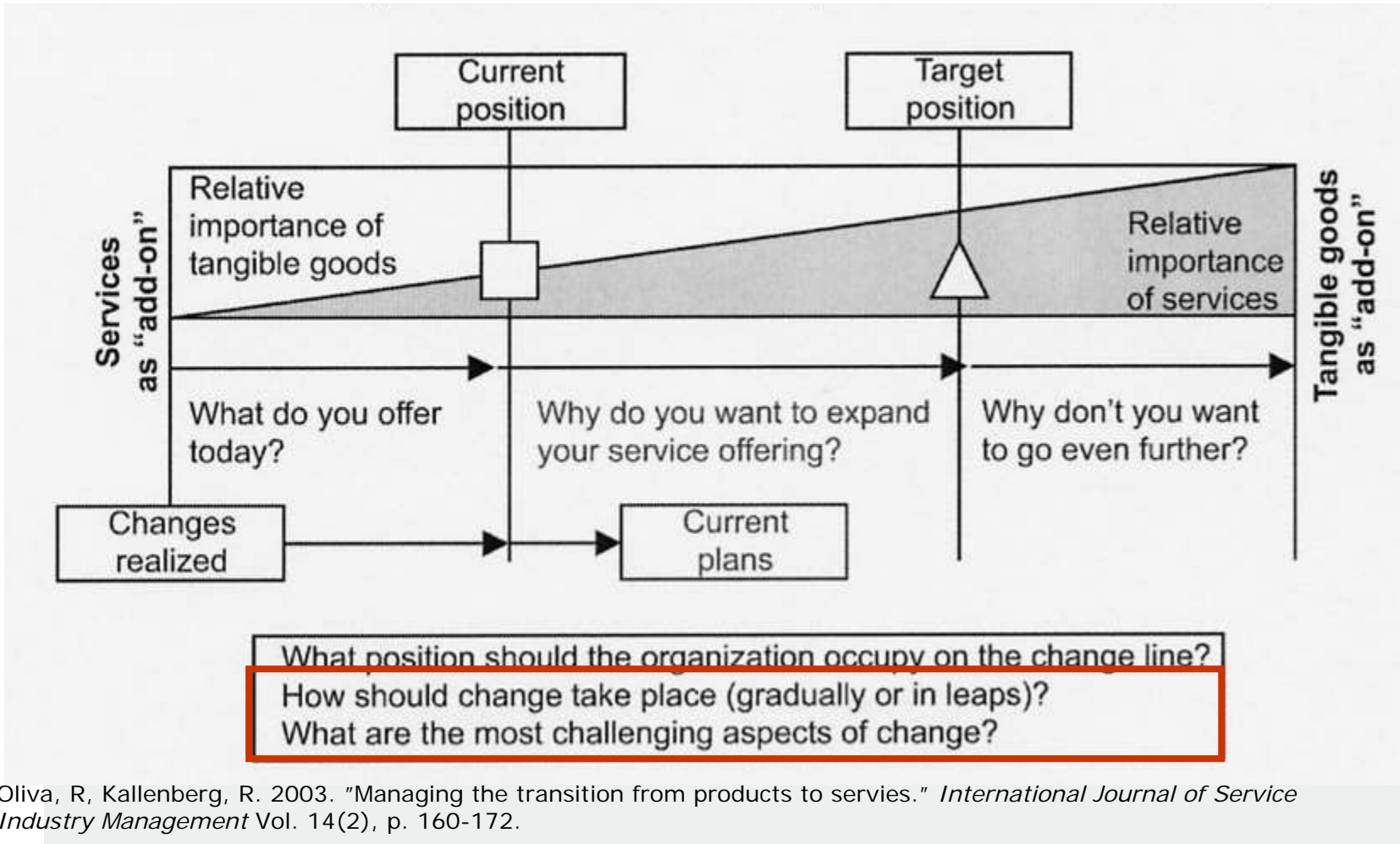
Kaija-Stiina Paloheimo



# Outline

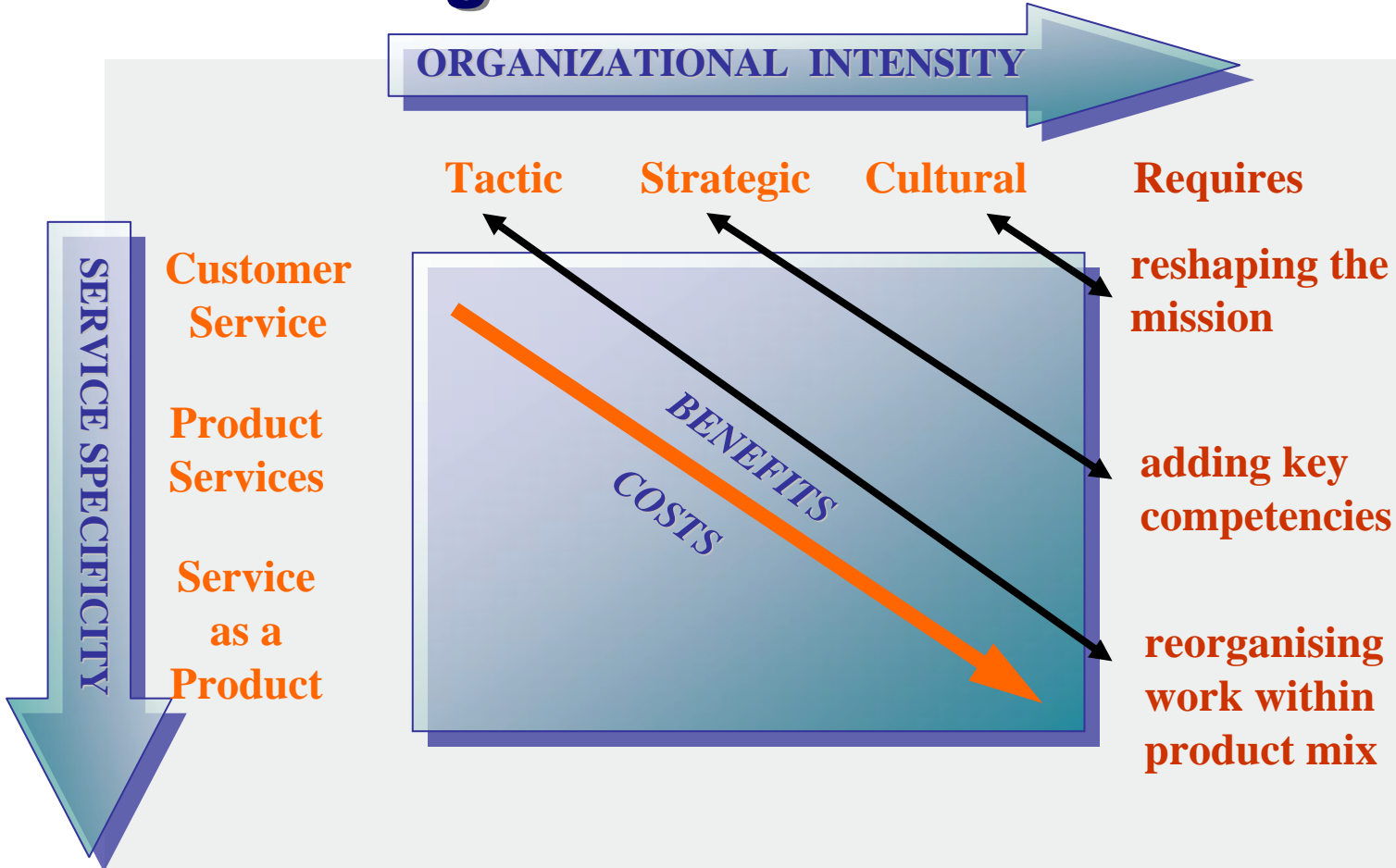
- ✓ The Task
- ✓ Adopting a Service centered strategy?
- ✓ Transformation challenges
- ✓ Knowledge and roles
- ✓ Productification vs. Servitization (Servicefication?)
- ✓ Case example: lessons learnt

# Transformation?



Oliva, R, Kallenberg, R. 2003. "Managing the transition from products to servies." *International Journal of Service Industry Management* Vol. 14(2), p. 160-172.

# Degrees of transformation



According to: Mathieu, V. (2003) and (2001b). " Service strategies within the manufacturing sector: benefits, costs and partnership". *International Journal of Service Industry Management*, Vol. 12(5), pp. 451-475.



# Adopting a service centered strategy?

- ✓ Successive hurdles to overcome in making the transition
  - economic potential? "difficult to get excited about a \$10,000 contract for cleaning a multi-million \$ equipment"
  - beyond the scope of competencies
  - failure to deploy a successful service strategy (e.g. Ford Motor Co)
  
- ✓ Transitioning from product manufacturer into service provider is a major managerial challenge
  - requires new organizational principles, structures and processes
  - new capabilities, metrics and incentives
  - New customer driven KPI´s?
  - new business model: transaction-based to relationship-based

(Oliva & Kallenberg 2003; Akkerman & vanOppen 2006)





# Role of the CEO

- ✓ Making the transformation meaningful: make them believe in the cause
- ✓ Role-modeling desired mind-sets and behavior: lead by example
- ✓ Building a strong and committed top team: who has the ability and motivation to make the journey?
- ✓ Relentlessly pursuing impact: roll up your sleeves!
- ✓ Leadership!

Aiken & Keller (2006), McKinsey & Company



# Linking substrategies

## Customer (relationship) strategy

- whom do we want to serve?
- how do we want to serve?
- through which channels?
- in what kind of relationships?

## HR strategy

- What competences are needed?
- How to manage through people?
- Roles and processes?

## "Product" strategy

- what is the offering and its limits?
- offering development
- Standardization vs customization

## "Production" strategy

- where: back-office vs front-line?
- in what kind of constellation and why?
- Processes?



# (Inter)Linking substrategies

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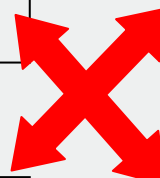
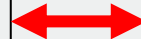
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# Structural considerations

- ✓ early separation of service and manufacturing operations?
  - can organizations leverage the advantages of manufacturing?

**“manufacturing firms may have to adopt horizontal service delivery structures when moving into operational services. In these structures, a service integrator would be orchestrating the delivery of operational services by a network of service players including manufacturers, maintenance and logistics specialists and professional service firms.”**

Oliva, R, Kallenberg, R. 2003. “Managing the transition from products to services.” *International Journal of Service Industry Management* Vol. 14(2), p. 160-172. C



**“If you’re not serving the customer you’d better be serving someone who is”**

Jan Carlzon, according to Albrecht & Zemke (2002)



# What, where and how, who with?

|         | People | Devices | ICT |
|---------|--------|---------|-----|
| People  |        |         |     |
| Devices |        |         |     |
| ICT     |        |         |     |

Modified from Takala (2001)



# Traditional thinking

- ✓ Human capital is expensive
- ✓ Meeting individual customer's needs is expensive – tailoring or customization should be avoided
- ✓ Automation is often the preferred solution to profitable service business

**YET:** the more there is hi-tech in services the more customers value hi-touch



**“Any service worker who can be replaced by a computer should be”**

Modified from Arthur C. Clarke, in Albrecht & Zemke (2002)





# Human resource strategy

- ✓ what kind of resources do we need?
  - do we need different competences for service business than for manufacturing?
- ✓ how do we hire, train, treat, nurture and empower?
  - managers and operatives alike...
  - how do we motivate and reward?
  - how do we committ and get commitment?
  - how do we measure and appraise?
- ✓ how – and whether – to cross silos?
- ✓ how to ensure knowledge flows between organizational units?



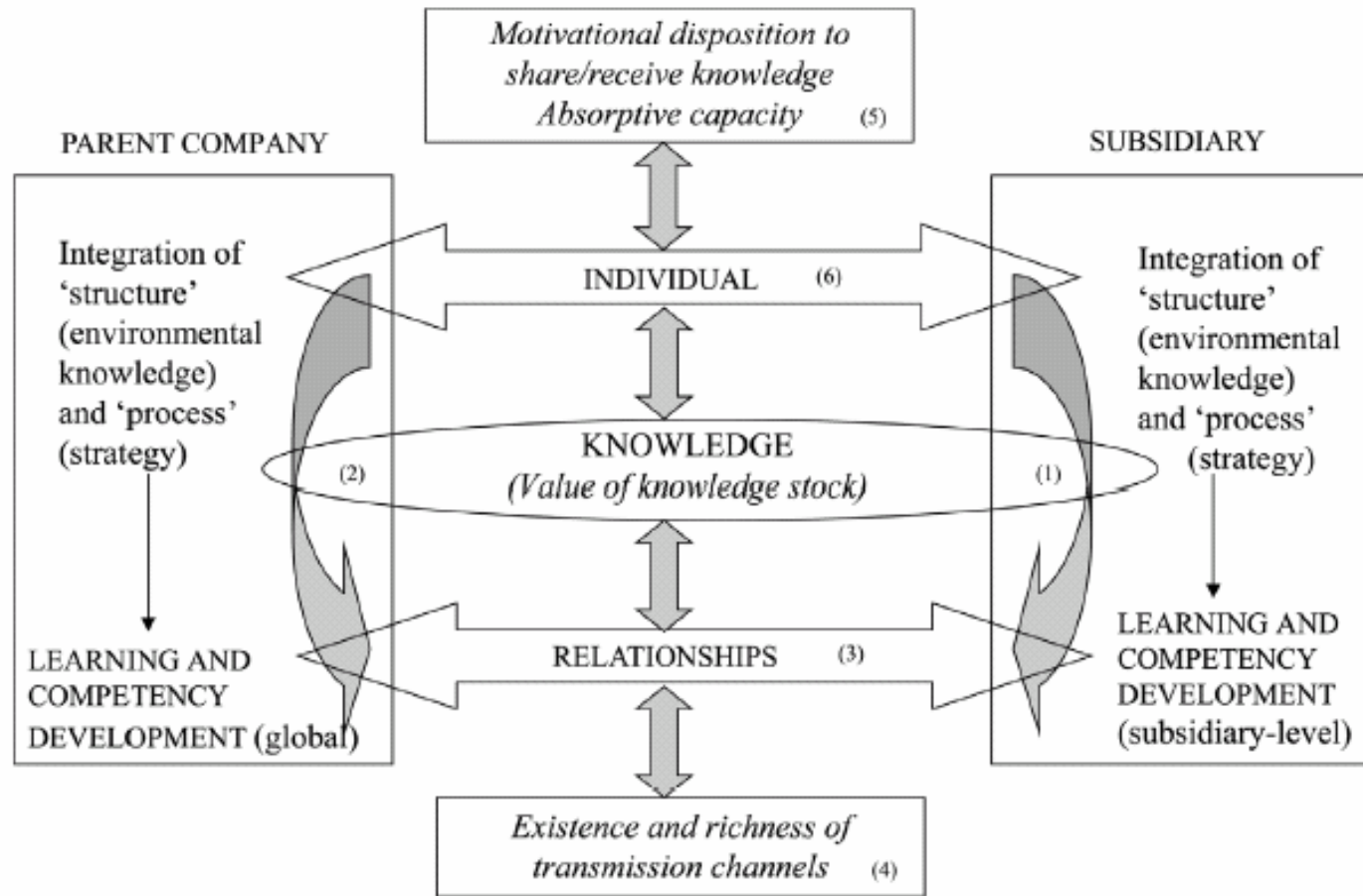
“Knowledge transfer and the role of the individual have particular relevance for multinational service firms for two reasons:

First, the higher human knowledge involvement embodied in the service industry creates a higher need for relationship development with the parent company, as well as customers, to facilitate knowledge flows

Second, services in foreign markets often require more adaptation than goods, and, therefore, a greater need for involvement of the parent company in facilitating the adaptation.”

Lindsay, V., Chadee, D., Mattsson, J., Johnston, R., Millett, B. (2003). “Relationships, the role of individuals and knowledge flows in the internationalisation of service firms”. *International Journal of Service Industry Management Vol. 14(1), pp. 7-35.*

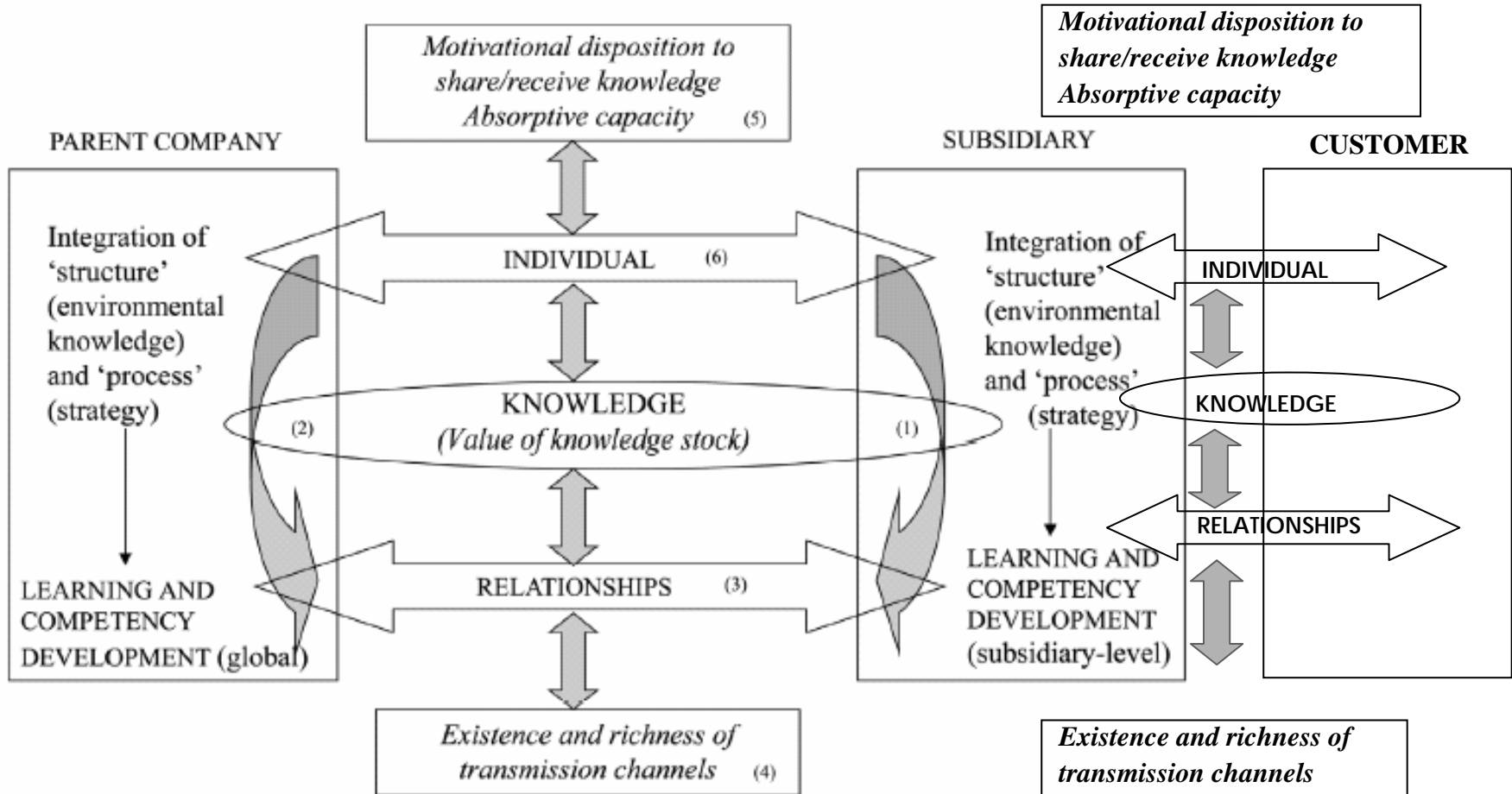
# Relationships, roles and knowledge flows



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# Customer knowledge

✓ about customer

➤ data

➤ information

➤ knowledge

✓ for customer

✓ from customer

✓ → Customer knowledge management doesn't stop at data!



# ..Customer knowledge and customer encounters

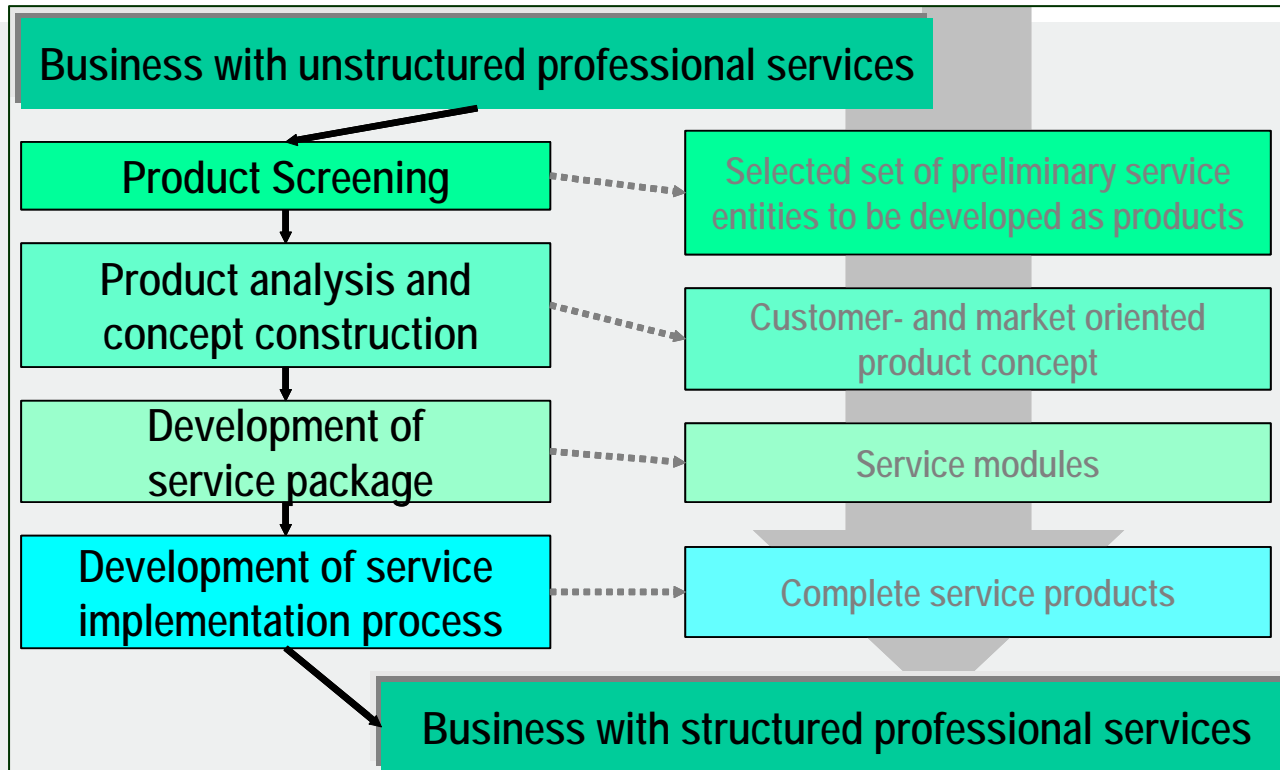
- ✓ Where is it? Who has it? What kind?
  - explicit knowledge, tacit knowledge, application knowledge, understanding, know-how or know-what
  - new customer knowledge is formed at each encounter at customer interface – how to filter the relevant knowledge?
  - how adopted, refined, stored?
  - what becomes of outdated customer knowledge?
- ✓ How does the knowledge needed by the customer change with time?
- ✓ Customer competences – how do they change with time?
- ✓ Channels of customer encounters – do they support the customer relationship?



# The transformation...

- ✓ “The transformation of a traditional industrial enterprise into a service oriented organization is not a simple challenge with easy solutions” (Ackoff 1999)
- ✓ “Organizational transformation often takes more than a decade... the change is highly uncertain and unpredictable, sporadic, with a series of accelerations and decelerations, there are successes and failures...” (Leifer et al. 2000)

# Service productification



Vaattovaara (1999) describes the productification process of engineering services based on existing technologies and functions.



# Servitization

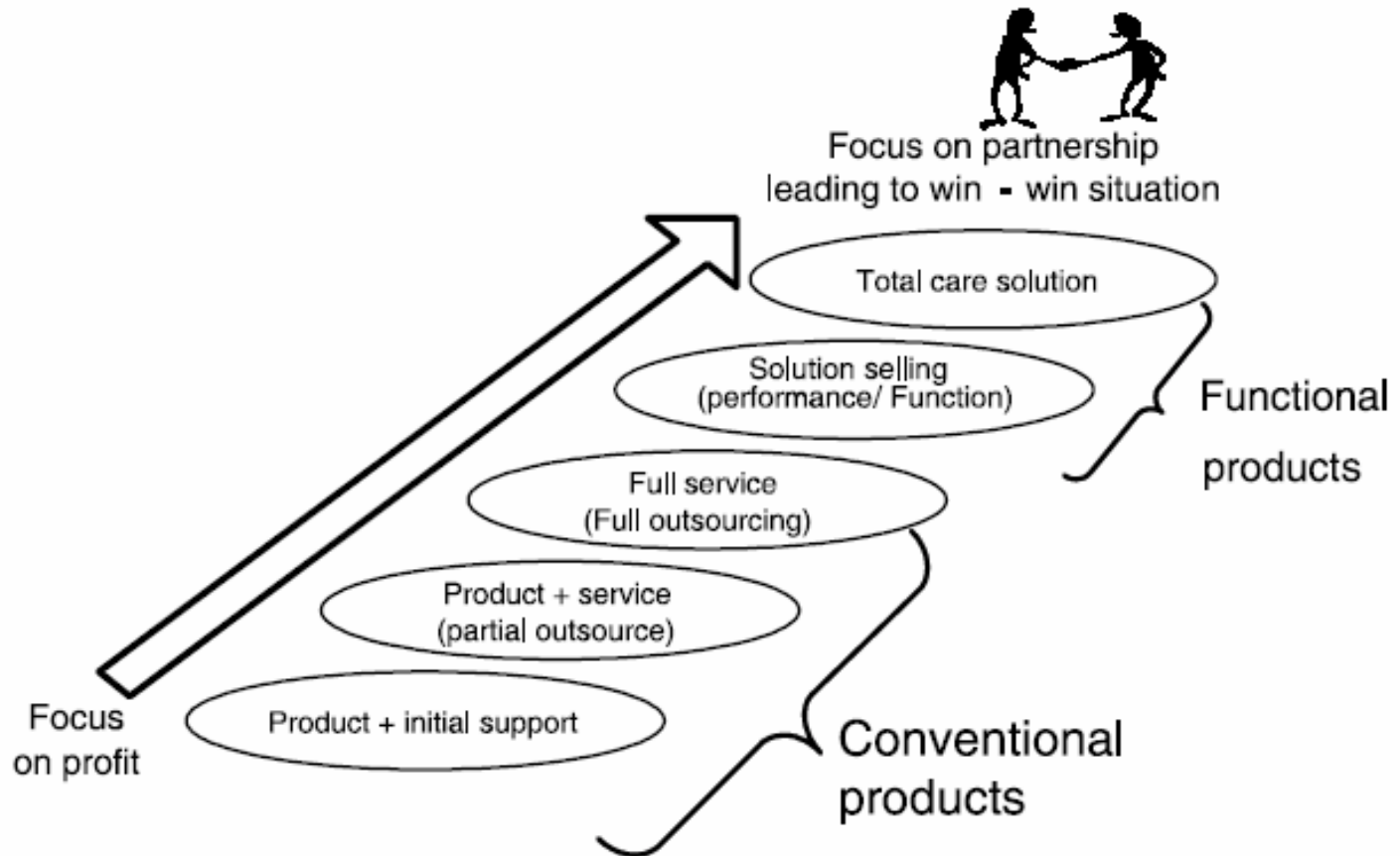


Fig. 3. Product types based on ownership.

Kumar R, Kumar U (2004). "Service Delivery Strategy: Trends in Mining Industries." *International Journal of Surface Mining, Reclamation and Environment*. Vol. 18 No. 4, pp- 299-307.



# Either, or, or all?

- ✓ Productification?
- ✓ Servitization?
- ✓ Servicefication?



# Example from "real world"

- ✓ Information and Communication Technology Enabled Commerce
- ✓ Multinational company, HQ'd in Finland
- ✓ Previously very technology driven, complex products and product systems, moving towards service and customer orientation
- ✓ Customer interface explored through interviews on both sides



# Findings

- ✓ general contributors to good service culture
- ✓ role of help desk
- ✓ role of training
- ✓ role of customer relations
- ✓ successful identification of
  - customer perception of “product” vs customer identity
  - who is allowed to monitor customer’s need for change?
    - Appropriate use of resources
- ✓ customers’ expectations from suppliers



# Contributors to good service culture

- ✓ **Supplier organization had**
  - **acquired good working knowledge of background of customer application**
  - **taken the customer view to the organization**
  - **common operative background / history**
  - **uniform target customer segment**
  - **uncomplicated access to customers**
  - **frequent customer contacts through many channels**
  - **free access to customer information and customer application related information**



## .../2

- ✓ Regular user group meetings and participation in industry working groups
- ✓ physical closeness (one building), same language and same culture of the staff (contribute to spreading of information).
- ✓ systematic collection, documentation, and processing of customer information and feedback
- ✓ time to learn from customer feedback
- ✓ staff awareness of their contribution to the customer's value creation process
- ✓ staff rewarded for sharing customer knowledge
- ✓ regular measurement against set – realistic – benchmark targets



# Role of Help Desk

- ✓ staff well educated both in products and their applications → enabled high rate of problems solved on the spot
- ✓ application specific → helped to keep up-to-date on customer applications
- ✓ 24/7 contactability
- ✓ personal communication by telephone
- ✓ well documented case log
- ✓ protect the rest of the organization by putting out fires
- ✓ well integrated into and respected by the rest of the organization



# Role of Training

- ✓ systematic staff training; induction program at first followed by a succession of progressively demanding product training blocks
- ✓ continually developed customer training
- ✓ well trained staff can contribute at every customer encounter
- ✓ training equally valued by staff and customers
- ✓ emphasis of training on learning





# Role of customer relations

- ✓ “any excuse to visit the customer”
- ✓ but respect the customer’s privacy
- ✓ want to develop a close, partnership type of arrangement but sensitive to customer preferences
- ✓ focus on careful management of staff change → provided continuity to customer relations, knowledge management



# Customers' perceptions of "product"

| Shopping for  | Creating value through                             | Aiming at   | "Identity"              |
|---|--|---|-------------------------|
| Hardware and software components  | Testing and evaluation                             | Make specs and recommendations                      | <b>influencer</b>       |
| Hardware and application software   | Application expertise, third party components      | Functional expert system for application management | <b>chef</b>             |
| Integrated, networked equipment systems readily installed and easily maintained | Control of network functionality and data validity | Get information that can be refined further         | <b>technical expert</b> |
| A lot of information  | Interpretation                                     | Decide on which information is relevant             | <b>knowledge expert</b> |
| Just enough information in clear format   | Interpretation                                     | Easy-to-make clear decision to act                  | <b>shepherd</b>         |
| Decision to act   | Distribution of information                        | Comfort and safety                                  | <b>fairy godmother</b>  |



# Two extremes

- ✓ On one extreme was the type of customer
  - who want to just find hardware and software that fulfil the specifications that *they* define
  - whose core competence lies in the technical expertise, which they add to the hardware and software
  - who want to stay on top of any additional tailoring or programming they commission from the supplier
  - whose ultimate value to their organization is producing specifications and recommendations and even deciding on procurement
    - If this were to be taken away, they would lose their value

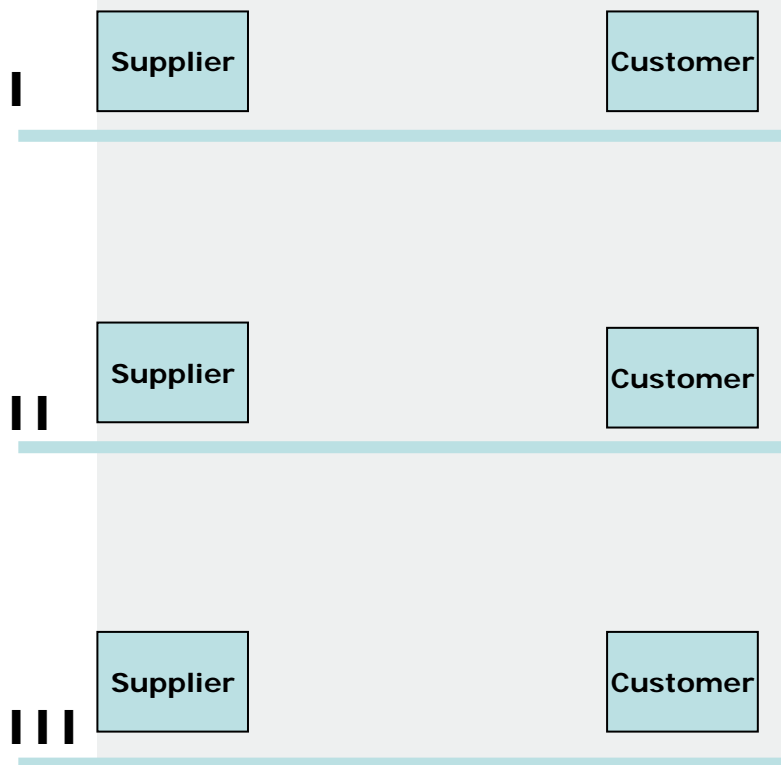


# Two extremes/2

- ✓ **The other extreme was the type of customer**
  - who has a well defined goal of serving their own customers
  - for whom technology is just a tool, if not a nuisance of which they prefer not to know details about
  - who, whilst naturally interested in prevention of adverse events, also want to secure their back against liability
  - who are only interested in getting the decision to act or not, as comfortably and safely as possible
  - whose own value creation then remains provision of the infrastructure and the distribution of information to all concerned parties

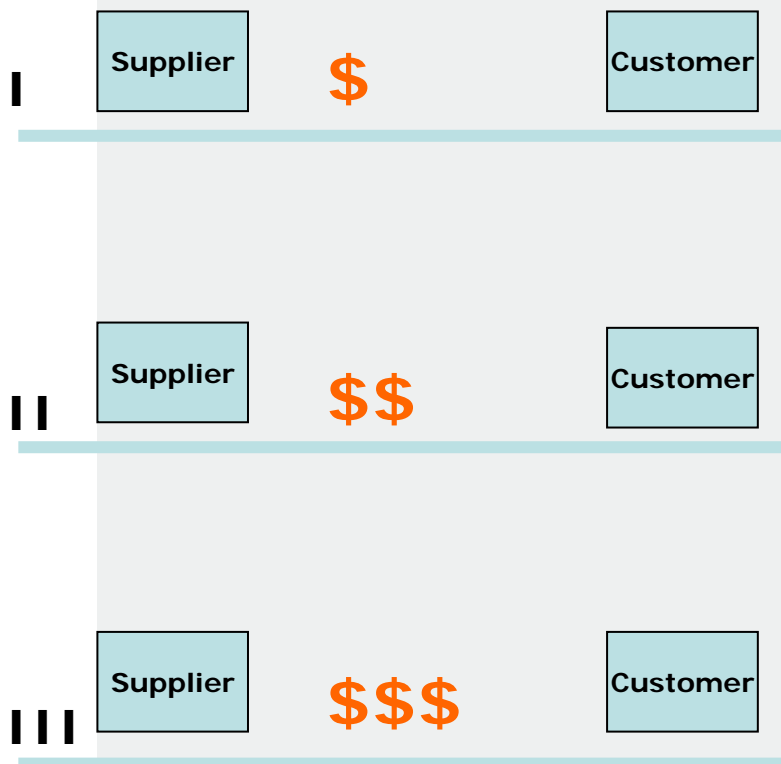


# Customer relationship and change



Three levels of customer relationship with supplier in relation to change can be identified

# Customer relationship and change

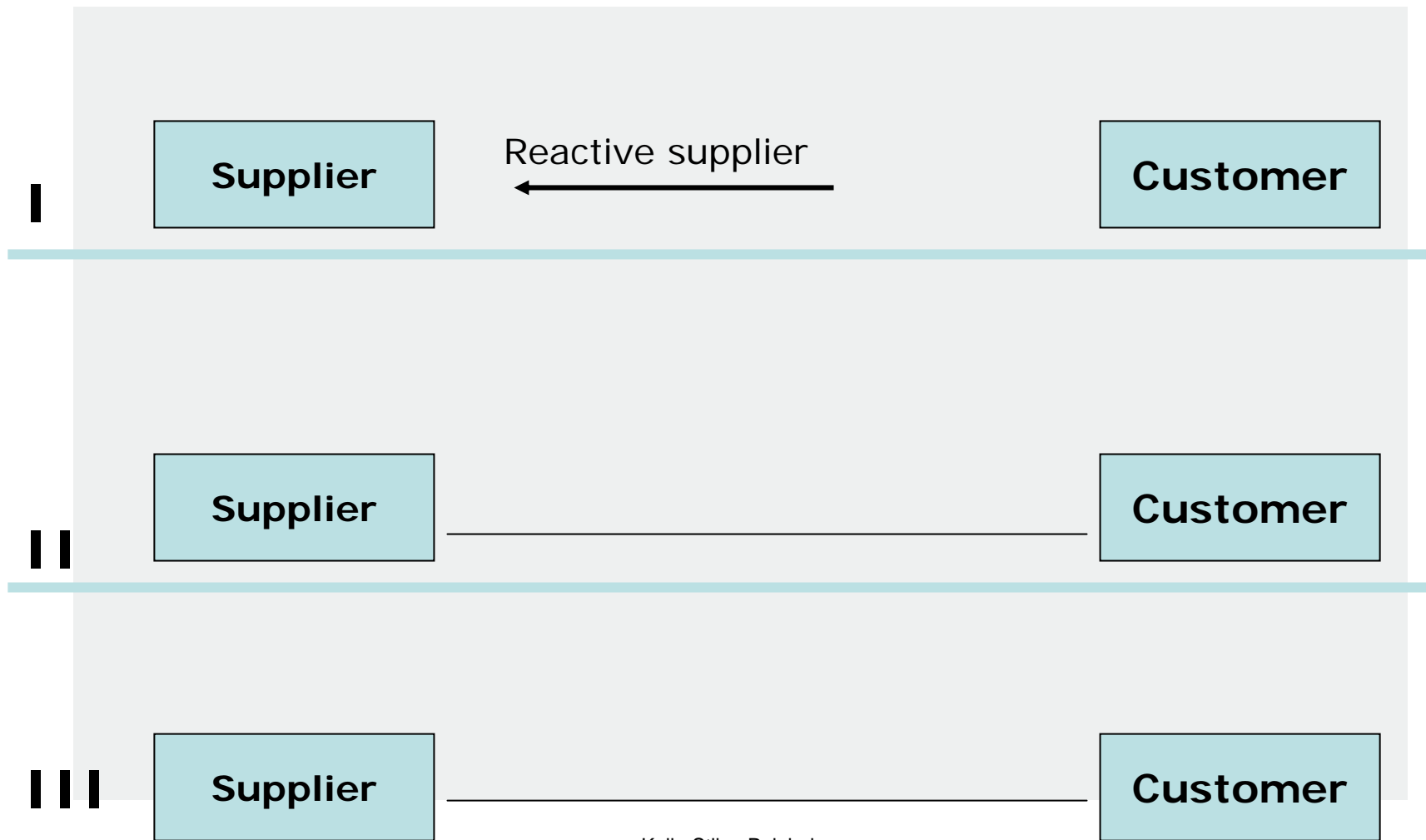


Three levels of customer relationship with supplier in relation to change can be identified

- who monitors needs for change?
- who draws implications and what kind?
- who controls change?
- where is the best earning potential?

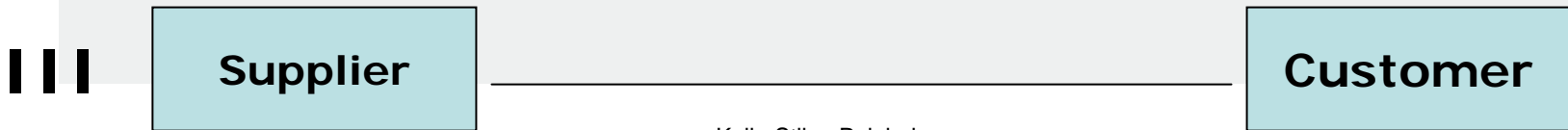
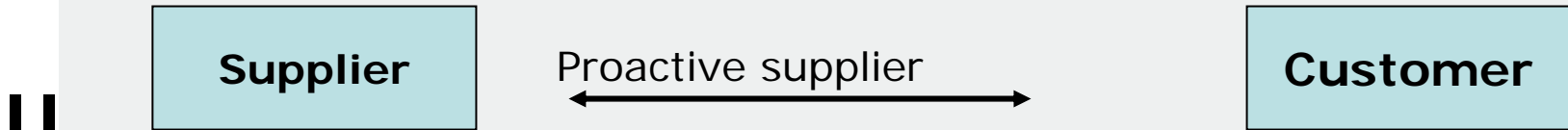
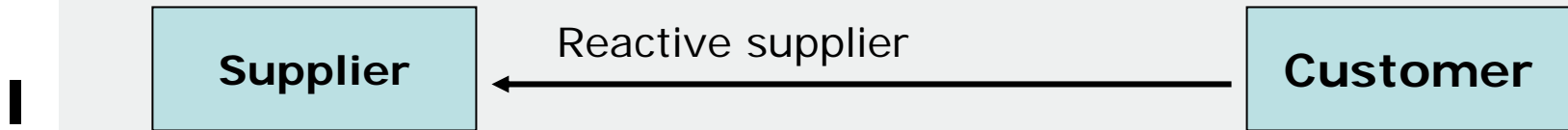


# Change





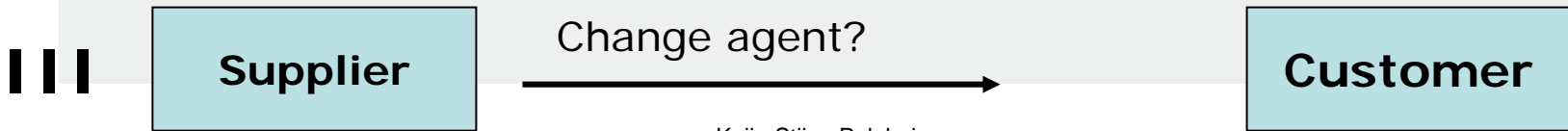
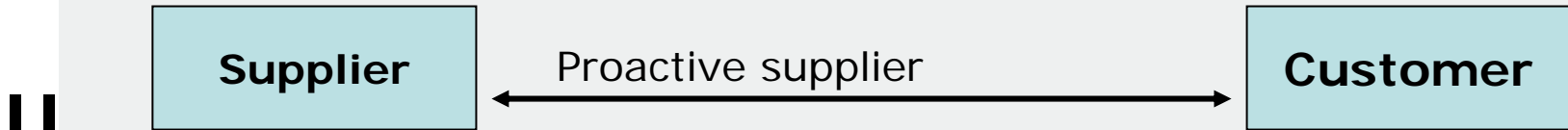
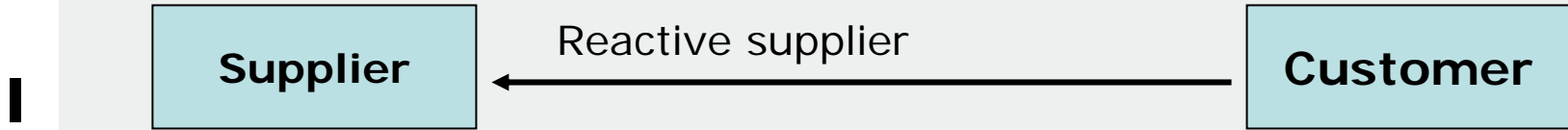
# Change







# Change





# Customers expected suppliers to

- ✓ understand what is important for them
- ✓ understand how they are affected by system and logistics malfunctions
- ✓ be interested in the customer's world
- ✓ speak "customer"
- ✓ not leave them alone, bounced from one department to another
- ✓ take full responsibility of putting things right if they go wrong



# To sum up

- ✓ So you won't be able to get rid of the customers!
- ✓ But you may be able to spend quality time with them!
- ✓ The whole organization has to undergo change!
- ✓ The change must be managed!
- ✓ It starts with top management – but is everyone's responsibility!



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