Exploring the alignment between internal and external dimensions in servitization

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Abstract: Research and anecdotal evidence suggest that manufacturers undertaking the path towards servitization face several challenges, that may generate inconsistencies, e.g. between strategic intentions and internal organizational arrangements and even more with external elements (at the customer and supplier sides). The paper addresses the misalignments faced by companies in the servitization journey, through a literature review and a case-based research. 16 challenges are pointed out from the literature, grouped into five dimensions. They are reflected by the analysis of five case studies, that allow to build a framework based on the five dimensions (strategy, offering, company, service network and customers).

Keywords: Servitization, strategic alignment, case study.

1. Introduction

A strategy adopted by western manufacturers to respond to increasing market and competitive pressures, demand stagnation and evolving customer is the development and provision of services related or integrated to the product offering. Such phenomenon named servitization of manufacturers, is defined as the process of creating value by adding services to products (Baines et al. 2009). Companies such as IBM, General Electric, Xerox, IKEA, Rolls-Royce, Ericsson and Toyota Material Handling have reshaped their offerings in such a direction (Isaksson et al. 2009). Strategic and organizational patterns through which manufacturers evolve their offering augmenting their service orientation, and rationales to servitize, have been investigated in literature (Davies et al. 2006; Fang et al. 2008; Neely 2009; Martinez et al. 2010). Moreover, manufacturers may also suffer of poor alignment and involvement of their third-party service network and of the lack of adequate instruments/incentives (e.g. contracts, information exchange) as well as communication, training and cultural orientation towards the customers (Brax, 2005; Baines et al. 2009; Neely, 2009; Martinez et al. 2010).

Misalignments in both the internal and external dimensions just mentioned, prevent companies to reap the benefits promised by servitization (Gebauer et al., 2005; Neely, 2009). The paper studies the misalignment areas of companies in the servitization journey, through the analysis of literature and a case-based research. A framework is proposed based on five dimensions (strategy, offering, company, service network and customers) that points out the elements that need to be aligned for successfully undertaking and pursuing servitization initiatives.

The remaining of the paper is structured as follows. The next section addresses the challenges and misalignments in servitization paths encountered by manufacturers; the third section describe the empirical research methodology, while the following section provides findings from five case studies. A discussion and conclusions are then drawn in the final section.

2. Literature review

89 papers related to servitization topic have been analysed, and the challenges and obstacles encountered by manufacturers in the servitization journey pointed out in those works were categorized: 16 challenges have been pointed out, as illustrated in Table 1.

Table 1: Summary of the challenges emerged in the literature review.
They have been further grouped into five dimensions: strategy, offering, company (internal dimensions), service network and customers (external dimensions), as reported in Table 2.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Challenge</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>Commitment &amp; Leadership</td>
<td>An increased managerial service awareness and commitment at the top management level is needed to lead a change in the service awareness of employees</td>
</tr>
<tr>
<td>Strategic vision</td>
<td></td>
<td>Adopting a service transition strategy may involve sacrificing the level of resource inputs to the core product and manufacturing competencies of manufacturer</td>
</tr>
<tr>
<td>Product-relatedness of the firm’s brand</td>
<td></td>
<td>A very strong goods-intensive brand might become an obstacle in introducing successful brand extensions moving toward the service area</td>
</tr>
<tr>
<td>Offering</td>
<td>Scalability</td>
<td>Through product modularization and standardization solution providers must learn to build solutions that are scalable</td>
</tr>
<tr>
<td>Critical mass</td>
<td></td>
<td>Service transition strategies typically require building a critical mass in sales, estimated to be 20%–30%, before they can expect positive effects on firm value</td>
</tr>
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<th>Dimension</th>
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<th>Description</th>
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<tbody>
<tr>
<td>Capabilities and formalisation of New Service Development Process</td>
<td></td>
<td>The design of services is significantly different to the design products. New (service development) capabilities in are needed to successfully implement a service transition strategy</td>
</tr>
<tr>
<td>Timescale</td>
<td></td>
<td>Multi-year partnerships and long-term risk and exposure have to be managed</td>
</tr>
<tr>
<td>Company</td>
<td>Cultural readiness</td>
<td>A cultural change for a product-centred organization is needed to become service-oriented</td>
</tr>
<tr>
<td>Risk management</td>
<td></td>
<td>If not adequately managed, offering of product-service systems leads to increasing (financial) risks for the manufacturer</td>
</tr>
<tr>
<td>Organizational readiness (hierarchy, inter-functional cooperation)</td>
<td></td>
<td>Due to differences between products and services shifting from traditional to servitized manufacturer requires significant organizational changes in language, values, design process, and organization design</td>
</tr>
</tbody>
</table>
### Dimension | Challenge | Description
--- | --- | ---
Communication & training | Due to the nature of services, proper communication and learning practices are needed to clearly describe to customers and service network partners the advantages of servitized offers.
Customers/customer interface | Cultural readiness | Even customers need to change their mindsets, asking for (and willing to pay) services rather than looking for products.
Customer interface capabilities | Capabilities at the customer interface are needed in order to understand the customer's broader business needs and operating environment.
Integration practices | Adapting a service transition strategy require a higher degree of integration among the actors of the value chain. The provision of an integrated offering requires information and know-how intensive exchange with the customer.
Coproduction | Services require motivating the customer to the service co-production

### Dimension | Challenge | Description
--- | --- | ---
Service network | Cultural readiness | Suppliers (e.g. delivering service components of the offering to the customer) should follow the cultural evolution of the manufacturer.
Integration practices | A greater degree of cooperation between a provider and its supporting network is required to provide advanced services.
Supplier interface capabilities | Capabilities at the supplier interface are needed to allow for greater integration, and to support the organizational change of suppliers.
Supplier competition | Extending the service offering may lead manufacturers to enter in competition with service network partners that already offer services to customers.

Table 2: Five dimensions of servitization challenges.

### 3. Empirical research

The authors carried out five case studies to gain empirical evidence and to extend the literature-base knowledge on the topic. We adopted a multiple case study method (Yin 2009). For each case, the unit of analysis is the company undergoing a path towards servitization. The case selection was purposive: companies have been selected on conceptual grounds (Miles & Huberman 1994) with the aim of illustrating different approaches. Different respondents were involved in the case studies, including top managers (cases C and E), service managers (cases A, B, C and D), other functional managers (cases A and B) and service suppliers (cases A and C). The five companies are described in Table 3.
4. Findings

The five dimensions pointed out in Table 2 were used to classify the case findings, hereafter summarized.

**Strategy** – Company A and Company D are in the development phase of a servitization strategy: despite the claims by the sales managers, Company A is still strongly product-oriented, while the role of Company D services in the customers’ eyes is still unclear. Also for Company B, focusing on technological innovation, services are add-ons to products, aimed at customer retention through improved service quality. More mature servitization strategies characterize Company C, which sells “solutions”, and Company E, that evolved to a service company, having since several years decided that “our services will be so attractive and customized that customers will buy our machines in order to get our services” (former company CEO).

**Service portfolio** – Company A has partially differentiated the service portfolio for different customer segments, e.g. concerning maintenance contracts. However, the service portfolio is poorly formalised and communicated, as it happens for Company D. Company B and C developed maintenance contracts with a modular approach in order to provide quasi-customised solutions to their clients. Company C has a broader set of services, aimed to deliver “turn-key” solutions to customers. Company E provides a wide and differentiated portfolio of services to different customer categories, providing customized solutions.

**Company (internal organization)** – A highly variable degree of service orientation was observed within company A. From an organizational standpoint, the after-sales service function is a second line of management, responding to the logistic director, while pre-sales services are embedded in the sales functions where “salespeople should present themselves as people who propose customer solutions” (Sales Manager). More service-oriented organisational arrangements were found in other companies. Company C merged the sales and service structures under shared responsibilities. Company D has a SBU carrying out repair services and selling maintenance contracts with a profit & loss responsibility, while the other service activities (installation, ICT, training, etc.) are carried out by a service function (cost centre). Company E gives the sales and service functions the same relevance and power, and a service culture permeates the company.

**Supply network** – Company A and B have large networks for the sales (agents or dealers) and after-sales activities (repair centres). Company A, differently from company B, has a low level of integration with the network (poor formalisation of processes, little information exchange, network not involved in new service development). This generates an important risk of supplier competition (e.g. on maintenance contracts). Company C has an equity partnership with the former sales intermediary that ensures high alignment, while after-sales activities are partially outsourced to external suppliers. Companies D and E insource the largest part of sales and service delivery activities.

**Customers** – Company A’s customers can be grouped in two main segments. Small customers do not show any service orientation and base their choices on price and perceived product quality. Hotel chains and large canteens, instead, include services among their requirements for purchasing decisions. Case E is exemplary in showing how the cultural development of customers (initially not willing to pay for services) has been pursued through training and communication over time: the customer base is nowadays focused on the total cost of ownership and service responsiveness, rather than price.

5. Conclusion

The empirical findings support several of the challenges pointed out by the literature and highlight the effects of poor alignment among the five dimensions. From the critical discussion of the findings, a framework is developed. The framework is based on the five dimensions (strategy, offering, company, service network and customers) and several elements in every dimension: ensuring a proper alignment among the dimensions, by acting on and monitoring the elements reported in the framework, supports a successful transition from product to services for manufacturers. For instance, the leadership and the product relatedness of the service strategy (strategy dimension) should be aligned with the product-service offering definition, in particular with the formalization and communication of the service portfolio, the modularization and personalization of the services and the capability of undertaking long-term risks. These two dimensions should be reflected in the so-called organisational dimensions, internally (company dimension) and externally (customers and service supply network).
Figure 1: The proposed framework.

The paper attempts to identify the elements of internal and external alignment in the servitization journey of manufacturing companies. The framework can be used as a descriptive tool and also constitutes a useful reference for managers of companies undertaking the path towards servitization, as a way to identify misalignments and to adopt corrective actions.

An important limitation and future research step concerns the large-scale application and validation of the proposed framework, e.g. through a survey.

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References


