Service Infusion in Manufacturing: A Business Model Perspective

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Product firms are increasingly infusing services

EXPANDING THE OFFERING

SERVICES AS "ADD-ON"

Relative importance of products

PRODUCTS AS "ADD-ON"

Relative importance of services
What is the allurement of services?

In 2009, net sales decreased by 41 percent.

Net sales declined by 3 percent during 2009.

Source: Scania Annual Report (2009)
Supplier drivers into services

» Differentiation possibilities
» Growth
» Profitability
» Services are counter-cyclical
» Possibilities to build strategic customer relationships
» Service competition from third-party providers
» ICT enhances existing and enables new services
A business model approach

» A useful analysis framework to understand a company and its inherent parts (Amit and Zott, 2001; Chesbrough and Rosenbloom, 2002)

» Business model thinking can help create sustainable competitive advantage by reducing imitability: competitors will find it more difficult to isolate and copy individual elements of an integrated business (Kindström, 2010)

» A strategic realignment to services must be mirrored in changes throughout the business model. Successful change in one element depends on corresponding changes in and/or realignment of other elements (Kindström, 2010)

» This research uses eight common business model parameters as a structuring and analytical framework

Source: Kowalkowski & Kindström (2012)
A business model framework

- Long-term competitive advantage
- Offering
Some examples of services

- Technical support
- Inspection
- Maintenance
- Repair
- Reconditioning
- Retrofit (performance upgrade)
- Consulting
- Performance audit
- Spare parts provision
- Operation
- Customer training
What services are/should be offered?

» Service focus
  » Supplier’s products
  » Customer’s processes

» Value proposition (Ulaga & Reinartz, 2011)
  » Input-based: recovery or support
  » Output-based: availability or performance

» Integrated solutions
  » Synergies between product and service components required
  » $1 + 1 > 2$
How should the firm charge for the services?
Managing dual revenue logics

Input-based revenue models
- Variable
  (e.g., service hours, parts sold)

Output-based revenue models
- Fixed
- Dynamic
- ”Value based”
Power by the Hour
Material System 60

» Delivery of aircraft ready for operation to the customer:
  » with agreed functionality
  » with agreed technical availability (95%)
  » on agreed location
  » at the right time

→ to a fixed price per flight hour during an agreed period of time
New services influence the customer relationship

- Offering
- Revenue model
- Customer relationship
- Long-term competitive advantage
Several touchpoints on many levels

Source: Kowalkowski & Kindström (2012)
Looking beyond the customer relationship

- Offering
- Revenue model
- Customer relationships
- Value network
- Long-term competitive advantage
Strengthening the value network

» Relationships with dealers and service partners
  » Commitment?
  » Competence?

» Increased importance of specialist partners

» New value constellations may be required
New requirements on development, sales and delivery

- Offering
- Revenue model
- Long-term competitive advantage
- Customer relationships
- Service processes
- Value network
A broad view on service innovation

1. Market sensing
2. Development process
3. Sales process
4. Delivery process (incl. operation)

Source: Kindström & Kowalkowski (2009)
Differences between NSD and NPD

» Services do not require the same initial investments as products (e.g. physical prototypes and manufacturing facilities)

» Services typically require more interaction with and feedback from customers

» Compared to NPD:
  » NSD requires less initial investment in Stages 1 and 2
  » Typically, stages 3 and 4 are more time-consuming, resource intensive, complex to manage, and costly

Source: Kindström & Kowalkowski (2009)
The service-sales interface: critical for success

» Transform salesforce to service-savvy "value merchants"
  » A dedicated service salesforce?

» Tools and methods to visualise value

» Cross-functional, service-oriented KPIs
Exploit existing and explore new capabilities

- Resources and capabilities
- Long-term competitive advantage
- Service processes
- Customer relationships
- Value network
- Offering
- Revenue model
Capabilities for service innovation - examples

» Sensing and seizing opportunities and threats
» Reconfigure the resource base and business model elements

» Risk management
» Design-to-service
» Balancing product and service-related assets
» Creating a service-oriented mental model
An organisation to support the transformation

- Structure
- Offering
- Resources and capabilities
- Long-term competitive advantage
- Revenue model
- Service processes
- Customer relationships
- Value network
Organising for services and solutions

- Separation followed by integration is a common pattern
  - E.g., back-end units and front-end, customer-facing units
- There is no "one-size-fits-all" structure
Service transitions imply new organizational structures

» Organizational structures: how SBUs are organized

» Two dimensions:
  » Product or service focused
  » Geographically or customer focused


» European manufacturing companies:
  » Broad range of industries (machinery, equipment, measuring instruments, electronic devices)
  » Different countries (Finland, France, Germany, Sweden, Switzerland, the UK)
  » 94 executives interviewed

Source: Gebauer & Kowalkowski (2012)
Two dimensions of organizational structure

Source: Gebauer & Kowalkowski (2012)
Changes in organisational structure

Legend

1. Pattern 1: Emphasizing service orientation in the organizational structure
2. Pattern 2: Service-focused organizational approach
3. Pattern 3: Emphasizing customer orientation in the organizational structure
4. Pattern 4: Customer-focused organizational approach

Source: Gebauer & Kowalkowski (2012)
The positioning of the cases

Legend
- **Original organizational approach**
- **Number of companies changing the organizational structure**
- **Number of companies implementing the organizational approach**

Source: Gebauer & Kowalkowski (2012)
A strategy to support the transformation

- Strategy
- Structure
- Offering
- Revenue model

- Resources and capabilities
- Service processes
- Customer relationships
- Value network

Long-term competitive advantage
Service strategies

» Create a sense of urgency
» Long-term commitment
» Managers frequently underestimate complexity and time needed
» Local enthusiasts are critical
  » Bottom-up, internal awareness initiatives
A business model perspective

- Strategy
- Structure
- Offering
- Revenue model
- Resources and capabilities
- Long-term competitive advantage
- Service processes
- Customer relationships
- Value network

Source: Kowalkowski & Kindström (2012)
Thank you for your attention!

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Key references


Key references


