9

Overcoming the Challenges of Servitisation: Aligning Responses to Service Strategy

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9.1 Introduction

Manufacturers that have traditionally been product-focused face challenges in their transition to become more servitised businesses. These challenges include interpreting the market environment to understand whether servitisation is appropriate, reorienting the business from products to services, determining the correct organisational structure to deliver a new service strategy, and developing the necessary

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service-focused processes. While the benefits of servitisation are often espoused, the complexity and difficulty of overcoming these challenges is sometimes underestimated, leading to poorer outcomes from servitisation than might have been expected (this is sometimes termed the 'servitisation paradox').

Most research to date has treated servitisation challenges as isolated issues and has not explicitly recognised the interconnections between them. From a practical perspective, this is unhelpful since managers seeking to develop more servitised businesses must consider all the possible challenges they will face and, if they are interconnected, their approach to dealing with them should, likewise, be integrated. Equally, the number and specifics of these challenges also depend on the service strategy a manufacturer adopts, with approaches to overcoming challenges that facilitate the most servitised outcomes not necessarily being appropriate for all companies. Thus, for manufacturers aiming for less servitised outcomes, there are, potentially, fewer challenges to overcome and different approaches that can be adopted.

This chapter discusses the interlinked challenges of servitisation, aligned to the various service strategies manufacturers may adopt, and articulates potential responses to these challenges. It builds on work that brings together previously fragmented research on servitisation challenges (Alghisi & Saccani, 2015; Zhang & Banerji, 2017). However, unlike previous work, this chapter provides a 'road map' of servitisation challenges and responses, helping manufacturers to better understand how the service strategy they adopt requires them to sequentially address specific challenges to achieve their goals.

9.2 Service Strategies, Servitisation Challenges and Responses

This section considers (1) different service strategies that manufacturers might adopt and (2) the main servitisation challenges faced and possible responses to these challenges.

9.2.1 Manufacturers' Service Strategies

Manufacturers' service strategies have been variously categorised in the literature, with most researchers extolling the value of having more services in the mix of customer offerings (Ostrom et al., 2010). This may not, however, be the unidirectional process often envisaged in the literature (e.g., Oliva & Kallenberg, 2003), with manufacturers needing to balance service expansion and standardisation activities and manage the co-existence of products and services (Kowalkowski, Windahl, Kindström, & Gebauer, 2015). Indeed, there is evidence that manufacturers offer customers different types of services, from base services (e.g., installation, repair) through to advanced services (i.e., that involve payment based on performance or outcome), in order to cater for diverse customer needs (Baines & Lightfoot, 2014).

To deal with the plurality of manufacturers' service strategies, academics have developed two main typologies, which cater for a large range of manufacturers, not just those which are highly servitised. Gebauer (2008) developed a four-type service strategy typology aligned to manufacturers' business environments, with each strategy reflecting different degrees of servitisation. After-sales Service Providers (ASPs) concentrate on ensuring that their products function correctly. Customer Support Providers develop services to enable service differentiation. Outsourcing Partners take over activities that might have previously been performed in-house by customers, while Development Partners provide research and development services to customers. This typology addresses some of the heterogeneity in manufacturers' service strategies but aligns a 'strategy' to a type of service offering; for example, ASPs are assumed to offer after-sales services such as maintenance. Thus, the typology neglects service strategies where multiple service offerings are made.

To overcome this weakness in the Gebauer (2008) typology, Raddats and Kowalkowski (2014) developed a three-type service strategy typology based on manufacturers' 'enthusiasm' for services. Service Doubters (hereinafter termed Doubters) view services as offering limited differentiation and, therefore, offer few services; Service Pragmatists (hereinafter termed Pragmatists) view services as a means to create product differentiation for their own products; Service Enthusiasts (hereinafter termed Enthusiasts) view services as a primary means of growth and offer advanced services on their own and other vendors' products. Subsequent work has, however, questioned whether three types are sufficient, suggesting that Enthusiasts represent too large a group, with the possibility of an additional type, Restrained Enthusiasts, who primarily offer advanced services for their own, rather than multi-vendor, products (Burton, Story, Raddats, & Zolkiewski, 2017). This work also questions the use of the term Doubters, suggesting a negative view about services that might be too strong, and that Conservatives more accurately reflects a cautious proponent of services.

9.2.2 Servitisation Challenges and Responses

The first challenge manufacturers face concerns the need to interpret the market environment and whether servitisation is an appropriate response. For example, a multinational manufacturer may encounter varying regulatory environments for services in different international markets, meaning that the extent of servitisation may vary, with local service companies protected from international competitors in some countries (Neto, Pereira, & Borchardt, 2015). Manufacturers also need to consider the evolution of customers' needs and customers' likelihood of accepting the procurement of services from product suppliers rather than in-house service operations or dedicated service providers. This is highlighted in several industries, often those with complex product offerings (e.g., aerospace), with these customers more likely to seek assistance from their product suppliers in terms of financing capital equipment, improving service processes and risk mitigation (Ng, Parry, Smith, Maull, & Briscoe, 2012).

If the market environment is suitable for services, then manufacturers must deal with the second challenge, reorientation from products to services. This challenge is multi-faceted and concerns how a traditionally product-dominant firm can embrace services, overcoming the inherent cultural inertia of this transformation (Ostrom et al., 2010). To successfully reorientate to services, manufacturers need service leaders capable of overseeing the transformation (Raddats, Burton, & Ashman, 2015), with this service focus not just within a service strategic business unit (SBU) but also at the top of the company. This transformation might entail the development of new outcome-based business models—that is, payment for achieved performance outcomes rather than payment for products and services per se (Visnjic, Wiengarten, & Neely, 2016). Manufacturers also need new service-related capabilities to enable these business models (Huikkola, Kohtamäki, & Rabetino, 2016), such as new (or retrained) staff to sell and deliver these offerings (Baines & Lightfoot, 2014).

Even if a manufacturer is transforming its business from products to services, without overcoming the third challenge, that of structural reorganisation to deliver a new service strategy, its efforts may not be that effective (Alghisi & Saccani, 2015). There are two main options to consider. If services are primarily designed to 'defend' existing product businesses, then combined product/service SBUs may be appropriate (Auguste, Harmon, & Pandit, 2006). If, however, services are primarily there to 'grow' the business, a separate service SBU may be appropriate, which allows services to be developed independently from products, offering greater accountability for performance and enabling a services culture to develop (Auguste et al., 2006). However, a separate service SBU may not be the optimal organisational design; for example, in highly servitised businesses, customer-facing SBUs could be the optimal structure, integrating products and services into customer offerings. In this situation, the disadvantages of separate product and service business SBUs (e.g., potentially not working together on a customer offering) may outweigh the benefits.

The fourth challenge concerns the need to develop service-related operational processes. This challenge is applicable to all manufacturers, although each process is not applicable to every manufacturer. Even if services are not an important differentiator for manufacturers, there is still a need for some limited processes to deal with base services (Lay, Schroeter, & Biege, 2009). As services become more central to a manufacturer's customer offerings, the interlinkages and alignment between new service development (NSD) and new product development (NPD) become important (Spring & Araujo, 2013). However, NSD and NPD may compete for scarce resources, so firms need to balance these competing interests carefully to enable both to flourish (Eggert, Thiesbrummel, & Deutscher, 2015). As manufacturers develop advanced services, NSD must take greater account of customer needs, particularly during the early stages of the process (Santamaría, Nieto, & Miles, 2012). The sales process also needs to reflect this change and embrace 'value-based selling' (Sheth & Sharma, 2008), while the delivery process may include new technologies as part of remote monitoring and management of equipment (Opresnik & Taisch, 2015). As services start to address customers' business problems, it becomes less likely that these problems can be solved just with the manufacturer's products. Thus, service processes may need to encompass other vendors' products, with critical issues relating to knowledge sharing and organisational interfaces (Raddats & Easingwood, 2010).

9.3 Service Challenge and Strategy Road Map

The four service strategies and challenges are set out in the following road map (Fig. 9.1). The road map is based on interviews with 24 managers and documentary evidence from four large manufacturers: SecurCo, from the security sector; ChemCo, from the chemical sector; TelCo, from the telecommunications sector; and AeroCo, from the aerospace sector. Each manufacturer followed a different service strategy and the study investigated the servitisation challenges they faced and their responses to them.

The road map provides an original perspective on how manufacturers adopting different service strategies respond to servitisation challenges. It highlights the sequential nature of servitisation challenges. The four service strategies are adapted from previous research and highlight the differing roles that services can play within manufacturers, thus supporting the plurality of approaches identified in the literature. In summary, these strategies are:

- Conservative (SecurCo)—cautious adopter of services;
- Pragmatist (ChemCo)—understands the benefits of services linked to its own products;

Challenges addressed sequentially

Service Strategy \ Challenge	**Interpret market environment**	**Reorientation from products to services**	**Structural reorganisation**	**Develop service-related processes**
Conservative	Response: Ensure no additional service requirements from customers	Limited response required	Limited response required	Response: Process to develop limited range of services
Pragmatist	Challenge addressed	Response: Develop service-related capabilities	Limited response required	Response: Link NSD/NPD processes
Restrained Enthusiast	Challenge addressed	Challenge addressed	Response: Separate product and service businesses	Response: Collaboration with customers to develop process-related offerings
Enthusiast	Challenge addressed	Challenge addressed	Response: Revisit whether separation between products and services is still optimal	Response: Work with OEMs to develop multi-vendor offerings

Responses added cumulatively

Fig. 9.1 Service strategy and challenge road map

- Restrained Enthusiast (TelCo)—clear on the benefits of services and focused on developing advanced services aligned to its own products that take over operational processes previously performed by customers (e.g., availability contracting);
- Enthusiast (AeroCo)—strongly focused on developing advanced serviced, which include offerings developed from multi-vendor products.

The road map can help facilitate servitisation since it enables manufacturers to identify the type of service strategy they are adopting (or considering) and then relate this to the challenges they will face and how they might respond to them (in the order they need to be addressed). The road map shows that overcoming servitisation challenges is a four-stage sequential process. Those that choose to take an enthusiast strategic approach will need to progress through all four stages; the others will need to move through fewer stages, depending upon their particular strategy.

So, a Conservative needs to interpret the demand for services in its markets and develop a limited range of service processes to facilitate such offerings (e.g., spares and repairs, technical support), while maintaining a watching brief on whether customers might require more services from their product suppliers.

A Pragmatist already understands the market, and recognises and responds to a need to reorientate to services, mainly focused on its own products, typically developing more complex service offerings than those offered by firms adopting a Conservative strategy. To do this, new service-related capabilities will be required in addition to those identified as necessary for Conservatives, for example, skill engineers who can maintain products. Equally, the NPD process needs to be adapted to account for differences in the development of services, although these will largely be offerings that support existing products.

A Restrained Enthusiast will have to address the first two challenges, and then, in choosing to enable greater value from services, will need to consider setting up a separate service SBU to help nurture a service culture, and delineate reporting and reward systems for products and services. Given that manufacturers adopting this strategy will start to offer advanced services, such as availability contracting on their own products, it is imperative to further develop their service processes in addition to those already developed by Pragmatists. For example, account managers need to focus on understanding how products are used in the operational environment and their customers' pain points, in order to design offerings that deliver better performance than customers can achieve through in-house provision.

Finally, an Enthusiast will already have responded to the challenges of interpreting the market environment and reorientating from products to services. However, it will need to revisit whether a separate service SBU is the optimal organisational design, with customer-facing SBUs providing product/service offerings sometimes more appropriate. Equally, in addition to the service processes developed by Restrained Enthusiasts, Enthusiasts will need to commit to developing effective practices for working with other manufacturers (e.g., exchanging technical data on products) to develop customer offerings that include multi-vendor products.

9.4 Conclusion

Given that manufacturers are at different stages of their servitisation 'journeys' and have different destinations, this road map should assist managers to understand better where they are currently positioned (in terms of their service strategy) and the challenges that need to be overcome to reach their servitisation goals. The road map provides an original perspective, and by linking to existing academic literature, managers can seek more detailed guidance from individual papers on specific service strategies, challenges and responses as befits their needs. Servitisation has become a key opportunity and challenge for many manufacturers, as they seek to develop service offerings that help to differentiate their products, grow revenue and address evolving customer needs. However, it must be borne in mind that manufacturers need to have service strategies that best reflect their capabilities and the opportunities that their markets present, which in some cases may not be based on services at all.

For some manufacturers, for example, Conservatives, services may not be perceived as valued by customers, their products might not be amenable to complex service additions or they may lack some key capabilities, resources or knowledge to develop more advanced services. It is, however, important that these manufacturers continue to research the market to ensure that emerging trends, such as new customer requirements and/or competitor offerings, are assessed to ensure that service opportunities are not overlooked. Even these manufacturers will offer some services to improve the reliability of their products, for example, spares and repair and technical support. These services are unlikely to require service-specific processes, as these offerings will be catered for as part of the NPD process. There are unlikely to be many challenges to providing these services, given they are intrinsically linked to product offerings. For these manufacturers, differentiation could be sought through product innovation, customer centricity or cost leadership, rather than services.

For other manufacturers, for example, Pragmatists, services can play an important role in creating product differentiation. These services might include installation, maintenance and upgrades. They might also encompass other manufacturers' products on a case-by-case basis, if customer demand dictates, and the products in question do not directly compete against a manufacturer's own. To make this move into services, it is assumed that the manufacturer will have identified a market requirement and, therefore, needs to focus on developing suitable service-related capabilities. These are likely to include service engineers capable of delivering more complex service offerings, IT systems that enable service provision and sales people who can articulate the value of these service offerings. Given that services are now a distinguishable (and probably chargeable) element of a manufacturer's offerings, it is important that NPD/NSD processes are adapted to support the development of services. While services will generally be closely linked to products in terms of organisational structure (i.e., products and services in the same SBUs), it is important that they are managed as separate offerings, to avoid them being 'given away' (i.e., the cost absorbed into the product price). For many manufacturers, being a Pragmatist is the extent of their servitisation efforts, with more developed approaches either not being required by customers or requiring a fundamental realignment of strategy, organisational structure and capabilities that might negatively impact their existing product-focused business models.

For Restrained Enthusiasts, services are an approach to product differentiation and also an opportunity to grow revenue and address changing customer needs, for example, a desire to outsource formerly in-house operational processes, where the risk and responsibility is assumed by the manufacturer or shared between the manufacturer and customer. These offerings may guarantee the availability of the supplied products, with the customer paying for this availability, rather than the products themselves and other discrete services. To make this change, it is almost inevitable that the firm will have assessed the market environment, considering both customer needs and competitor responses to these needs. Equally, they will already have established services as a separate offering from products. To develop and deliver service offerings may require a major structural reorganisation within the business, for example, setting up a separate service SBU. Such an organisational separation between services and products may be required to enable a sufficiently strong services culture or mindset to develop and service-specific targets to be set and measured. Service-focused senior managers are also likely to be needed to lead this change. Beyond this structural challenge, manufacturers need to develop very close operational linkages with customers to fully understand their existing product-related processes. This challenge should not be underestimated as manufacturers' traditional expertise is in product design and possibly manufacturing, not the operational use of these products. This can also be a concern from the perspective of customers who may need convincing that manufacturers possess the expertise to take over what were formerly in-house processes. Equally, customers may perceive risks in sharing intimate details of their operations with suppliers as well as losing the knowledge to perform these activities in-house should the strategy to outsource them be reversed. Only by building strong, trusting relationships with customers are manufacturers likely to develop a deep understanding of these processes, their costs and risks, to enable suitable performance-based offerings and prices to be developed. It should be noted that these performance-based offerings are not likely to replace the existing portfolio of product-attached services but rather complement them, especially when a manufacturer's customers do not have homogeneous service requirements. Indeed, one customer may have heterogeneous service requirements for different products.

The final group of manufacturers, termed Enthusiasts, has the most developed approach to services, taking on performance-based contracts for their own products and being able to extend these two products from other manufacturers and third parties. These manufacturers will already possess a sophisticated understanding of the market environment and have established services as a separate line of business within the firm. The main organisational challenge that Enthusiasts face is whether the separation of services from products starts to be counterproductive, with unhelpful competition for resources (e.g., financing new offerings) and over prioritising services or products in pursuit of SBU-specific financial targets. Thus, organisational separation may no longer be necessary. Instead, customer-facing teams can use components from product and service SBUs (and indeed from other manufacturers) to create multi-vendor offerings for customers. Manufacturers will have less knowledge of other manufacturers' in-service product performance, so this heightens the risk of providing these complex, multi-vendor advanced services. Delivering these types of services requires Enthusiasts to develop strong relationships with other manufacturers to gain access to technical knowledge about their products, and this may need to be reciprocated. Even with strong supplier partnerships, Enthusiasts require high levels of technical expertise and strong risk management procedures. Customers may also perceive heightened risks from a manufacturer supplying products for which it is not the Original Equipment Manufacturer (OEM). As with Restrained Enthusiasts, these offerings are likely to sit alongside more traditional service offerings, so manufacturers need to be able to provide a suite of offerings that befits the needs of their customers. Managers should be aware that becoming an Enthusiast is generally an incremental, non-linear process spanning several years or even decades, requiring significant commitment from senior management to instigate the required degree of cultural change. Thus, being an Enthusiast is likely to be the exception rather than the rule.

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