

*From Manufacturing to
Knowledge-based
Service Business*

Business Model Transition from Manufacturing to Knowledge-based Service Business

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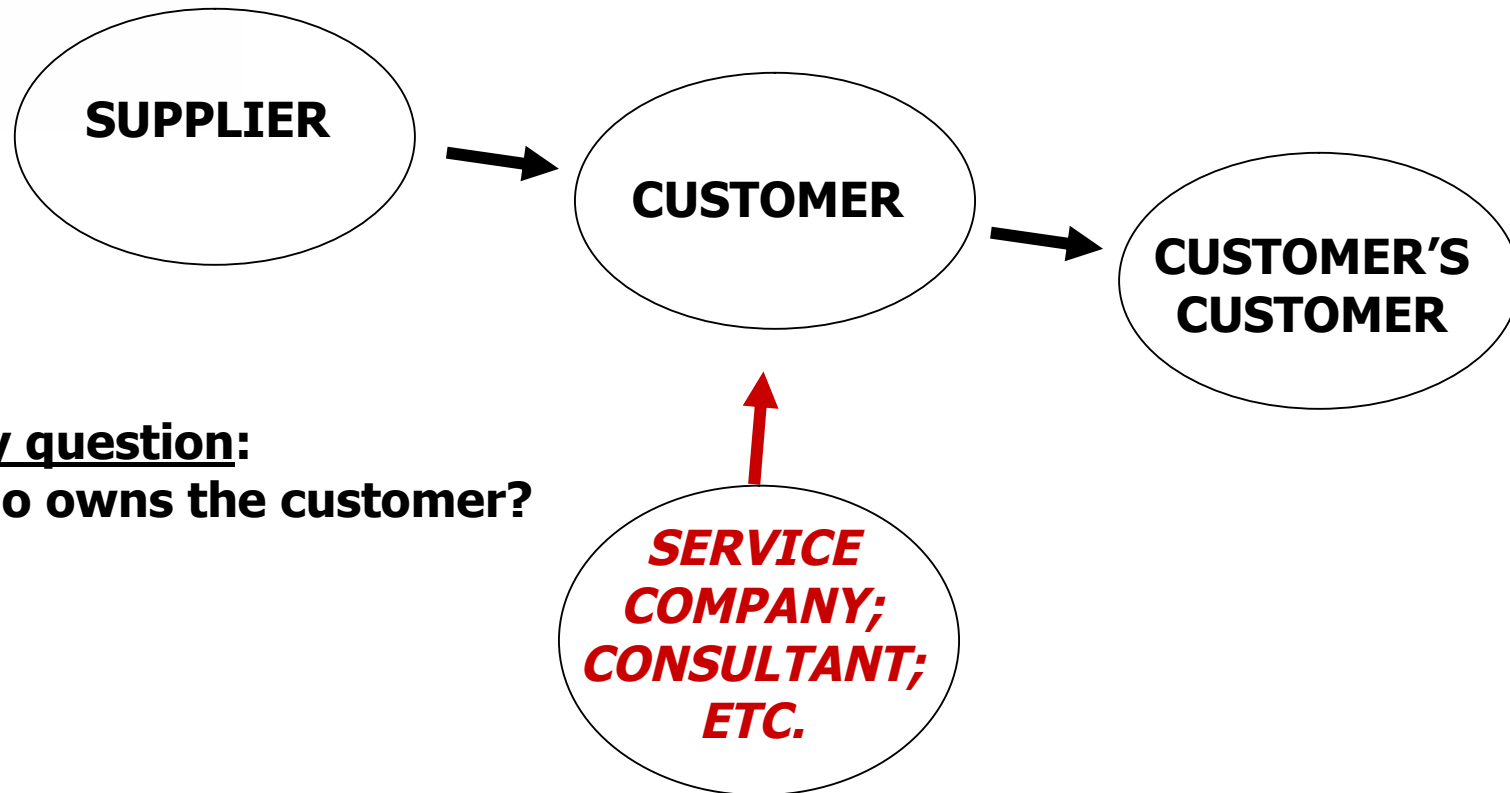


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The Challenge:



Key question:
Who owns the customer?



What Has To Be Achieved

in order to maintain competitiveness :

***To support the customers' various processes
in order to help them create value in their
business processes!***

More value for a customer means

- ***improved revenues-generating capability
and/or***
- ***lower costs of being a customer
(lower relationship costs)***



What Type Of Business Can Do This?

It is difficult, if not impossible, for a traditional manufacturing firm,

because it has a too narrow knowledge base!

A knowledge-based service business can do it

NB: A knowledge-based firm is by definition a service business



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The Main Knowledge Base

The *main* knowledge base of a manufacturing-oriented business:

Knowledge about products and manufacturing processes

The *main* knowledge base of a Knowledge-Based Service Business:

Knowledge about
1) The customers' processes
and customers' value creation; and about
2) How to support this value creation



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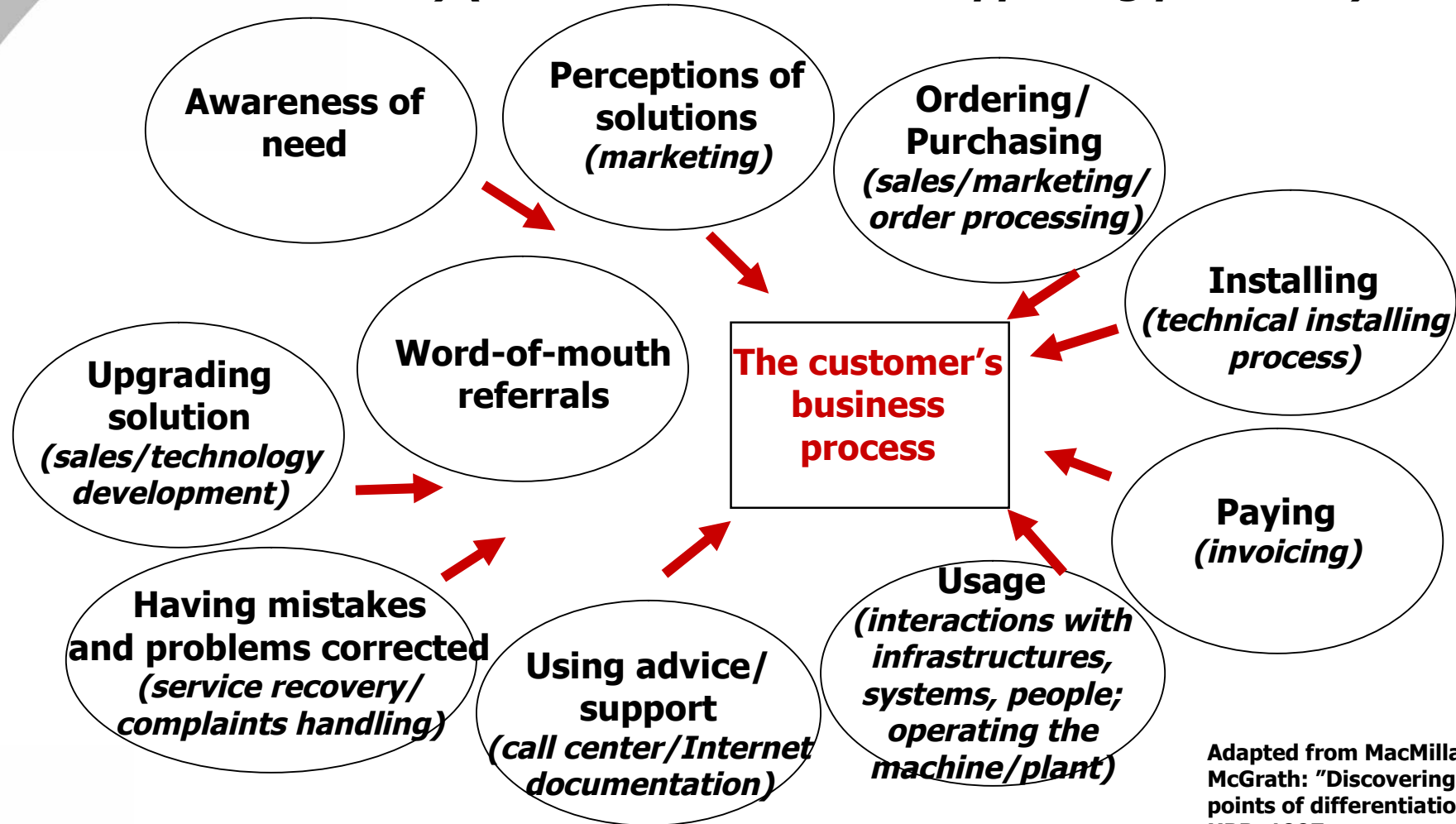


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Value creation in Supplier-Customer relationships:

1) The Customer's processes

2) (The Seller's customer-supporting processes)



Adapted from MacMillan & McGrath: "Discovering new points of differentiation".
HBR, 1997
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Understanding Customer Processes

For a knowledge-based service business, why is it particularly important to understand the customer's processes?

The nature of service is to provide support to another party (e.g., an external customer, network partner or internal customer). Supporting is a synonym of service.

Therefore, it is of vital importance to understand what to support!



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How Do Customers Perceive Value

Customer Perceived Value
= Transaction (Core) Value + Relationship Value

The customer relationship perspective is based on the notion that on top of the value of products and/or services that are exchanged the existence of a relationship between two given parties **generates additional value** for the customer (**and** for the supplier/service provider as well) :

- feeling of security and being in control
- comfort/no hassle/no unexpected events
- social benefits

and, **in the final analysis,**

- better revenue-generating capabilities
- lower costs of being customer (relationship costs)



Relationship Costs (Understanding customer sacrifice)

Relationship Costs are measurable and sometimes unmeasurable sacrifice for the customer, on top of price, caused by the way the relationship is functioning:

- 1. Direct relationship costs:**
Investments or out-of-pocket expenses (on top of price) due to the fact that the customer has to invest resources, time and money in maintaining the relationship
- 2. Indirect relationship costs:**
Unexpected and unwanted additional costs which are due to the fact that the relationship does not function as agreed upon or otherwise expected
- 3. Psychological costs:**
Lack of control, feeling of risk, headache



Total Sacrifice and Value for the Customer

Short-term sacrifice: Price paid

Not very interesting
other than from a
liquidity point of view

Long-term sacrifice: Price paid
+ Relationship costs

**INTERESTING
FROM A BUSINESS
POINT OF VIEW**

VALUE FOR CUSTOMERS = $\frac{\text{Total Revenue Generation Support}}{\text{Price + Relationship Costs}}$

**MOST INTERESTING
FROM A BUSINESS
POINT OF VIEW**



Providing offerings/solutions as service in order to support the customers' processes: What is service?

Starting point:

- Services are processes
- In these processes a bundle of resources – service employees, systems, information, the customer and user and their time – interact to support customers' value creation
- Value for customers is created **in the customers' processes** by the customers in interactions with a supplier
- Services are to a large extent perceived as either positive or negative **experiences**

From this the following definition of a service can be derived:

Services are processes where a bundle of resources interact in order to support the customers' processes in a value-generating way.

Some of these resources are the supplier's, some are the customer's.



The Core Competence

A manufacturing-oriented business:

How to manage manufacturing processes

A Knowledge-Based Service Business:

How to manage a system for supporting customers' value creation

(and hence also for supporting the business processes of customers - and often also of their customers)



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The Service Concept

Service as a function (old):

After-sales service; Maintaining and sometimes enhancing products that have been sold; add-ons

A Service Business perspective (new):

Long-Term support of customers' value creation (with a bundle of resources including people, products, systems, IT, "services", information, etc.)



Three Consequences for the Business Logic

1. Products as we used to know them **are dead!**

Products of course still exist, but they have to be viewed as **Resources** alongside other resources used as inputs into *customers' value-generating processes*

2. Every business is a Service Business

Customers have to be **served** with physical resources (e.g. "products" and other tangible elements), infrastructures (e.g. the Internet, Extranets, logistical systems, diagnostic systems), service processes (e.g. maintenance, invoicing, service recovery, call centers, R&D, software upgrading), and people (representing the supplier and the customer, respectively), etc.

3. The customer relationships have to be **Servicized!**

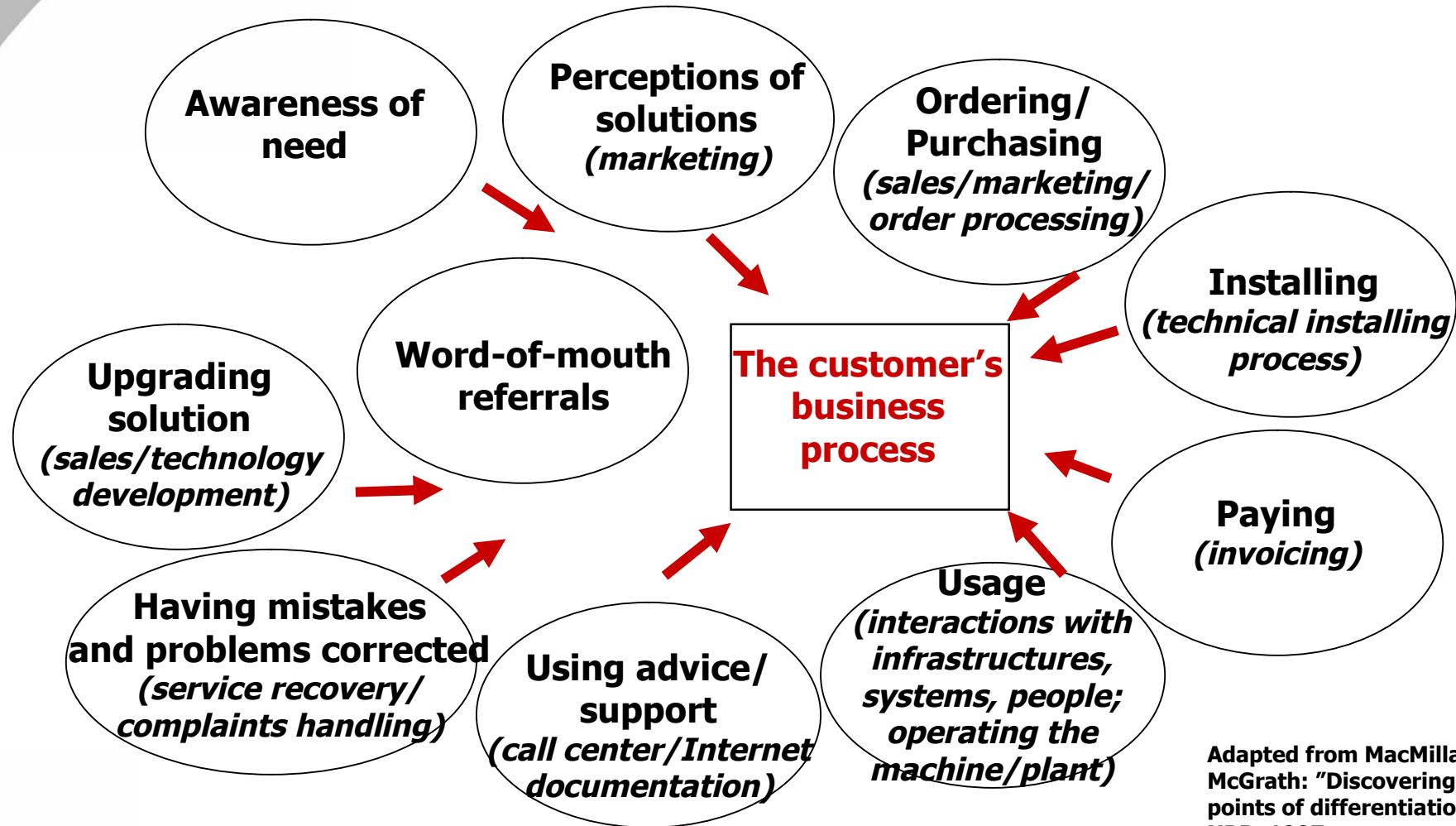
All **resources, activities** and **interactions** in customer relationships have to be turned into value-supporting services



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Where Is Marketing in a Knowledge-based Service Organisation?

Marketing is definitely not only carried out in a marketing department of full-time marketing specialists. ***Marketing is everywhere in an organization***, wherever customer contacts occur and wherever the customers' quality and value perception is formed as a basis for their willingness to continue their relationship with the firm. Marketing is also wherever internal customers are served in internal back-office operations.

In a service- and relationship-oriented firm marketing **cannot be organized**.

Marketing can only **be instilled** in the organization.

Marketing is nowhere in particular in the organization.

It is everywhere.

(Grönroos, Christian: *Service Management and Marketing*.
Chichester & New York: John Wiley, 2000, pp. 310-311)

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Questions to for any manufacturing firm to study:

1. What is the content of a customer relationship? What value-supporting activities and interactions take place?
2. How is value in relationships with customers created for the customers in their processes and by what means can such value generation be facilitated? (**customer value creation**)
3. How is mutual value creation for a supplier and for its customers taking place in supplier-customer relationships and how and by what means is this mutual value creation facilitated by the supplier and by the customer, respectively? (**joint value creation**)
4. What are the core competences and core knowledge base required for a supplier to successfully manage customer relationships and how can such relationships be managed to facilitate mutual value creation (**managing customer relationships**)
5. Which is the earnings logic of a manufacturer adopting a knowledge-based service business perspective

Hypothesis: *It takes a knowledge-based service business approach rather than a traditional manufacturing approach to successfully manage customer relationships in this manner*



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Thank you

Main source:

Grönroos, Christian: *Service Management and Marketing. A customer relationship management approach.* John Wiley & Sons, Chichester 2000

Suomeksi: *Palveluiden johtaminen ja markkinointi.* WSOY/Ekonomiasarja, Espoo 2001

På svenska: *Service management och marknadsföring. En CRM ansats.* Liber, Malmö 2002



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