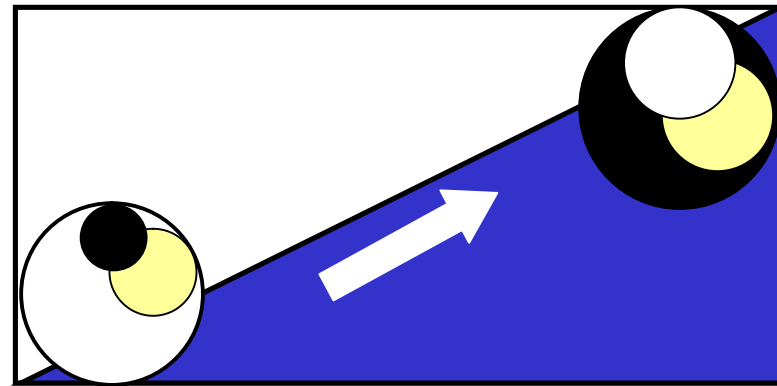


3rd Industrial Business Day

April 27, 2006

Finland



# Value Creation through Services

**- Positions and Movements on the Goods-to-Services Continuum**

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Service Research Center

Karlstad University, Sweden

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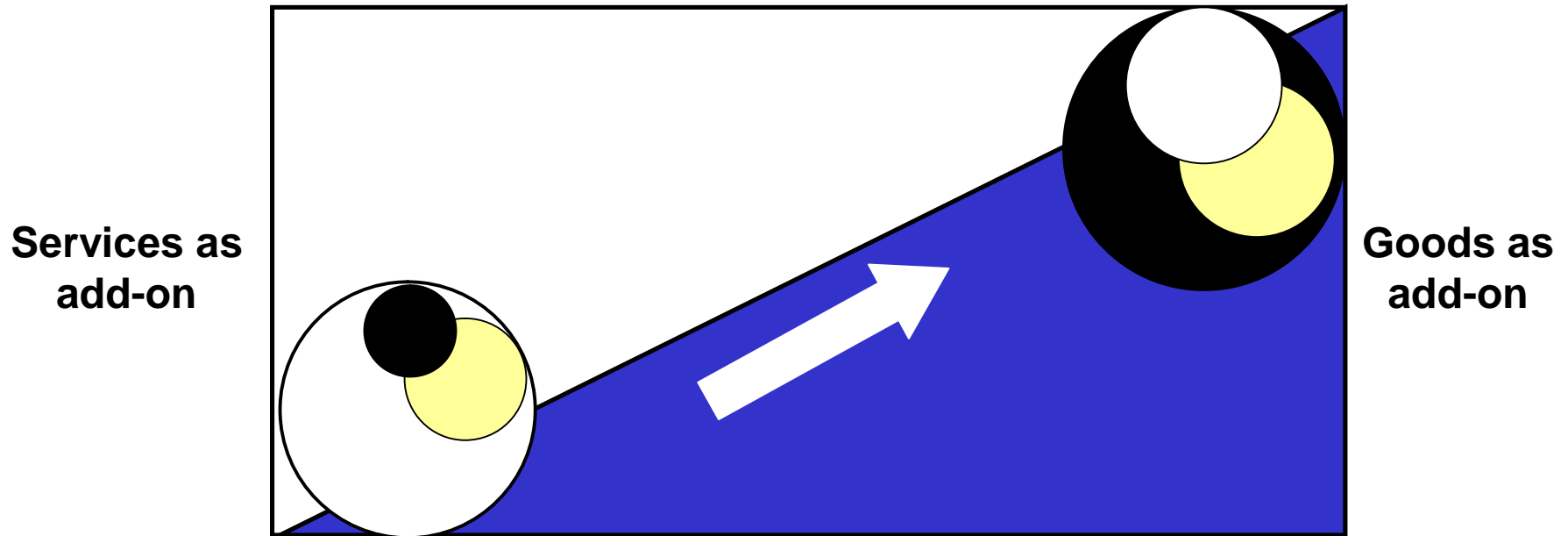
# Value Creation through Services

## A RESEARCH PROJECT

- Conducted by CTF together with IVF financed by VINNOVA, 2004-2006
- To contribute to the introduction of “Functional Products” in Swedish companies.

# The Goods-to-Services Continuum

## A CHANGE PERSPECTIVE



- Many companies are expected to change from a position in the left to a position offering the right.
- Change in organization
- Changes occur through a continuous process.

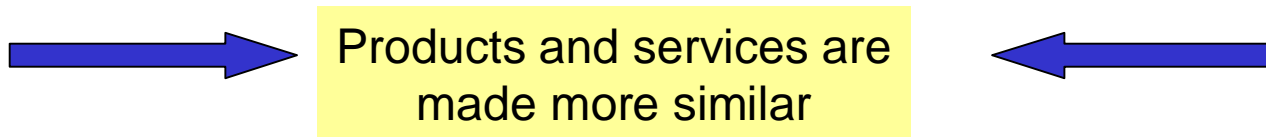
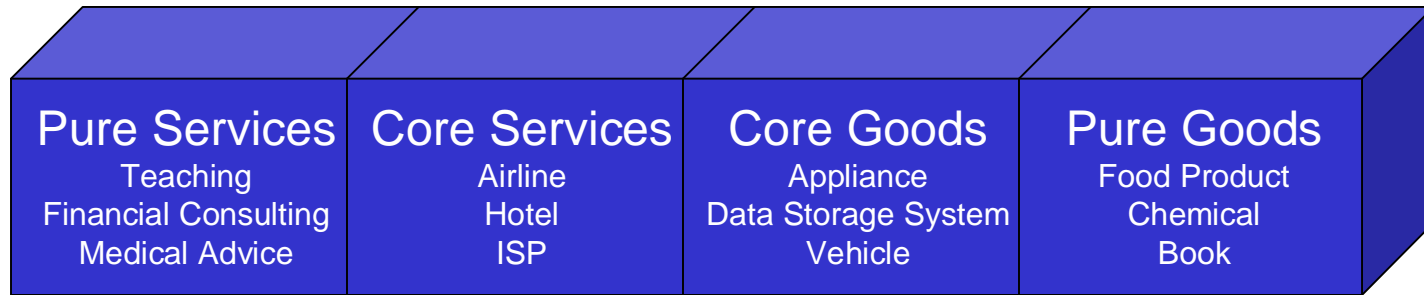
# The Goods-to-Services Continuum

## AN OVERVIEW OF MODELS

Authors	Positions
Chase (1981)	(1) managing a quasi-manufacturing organization, (2) proffering mixed services or (3) pure services
Vandermerwe and Rada (1988)	(1) the company is either in a goods or services business, (2) goods and services are combined in offerings, and (3) offerings are complex bundles of goods, services, information, support and self-service elements
Bowen <i>et al.</i> (1989)	(1) customer service is a component of the product, (2) service is an element of product strategy, (3) service-oriented goals are incorporated in the firm strategy, (4) service organization arrangements are adopted
Martin and Horne (1992)	(1) pure goods, (2) core goods with accompanying services, (3) core services with accompanying goods, and (4) pure services
Mathieu (2001a)	(1) customer services (interactions between seller and buyer), (2) product services (support of goods), (3) service as a product (services independent of the company's goods)
Davies (2003)	(1) manufacturing to (2) systems integration, then onwards to (3) integrated solutions in which services are added to systems, and further on to (4) operational services and even to intermediary services
Oliva and Kallenberg (2003)	(1) consolidating product-related services (services related to goods), (2) entering the installed base service market, (3) expanding to relationship-based services or expanding to process-centered services, (4) taking over end-users' operation

# The Goods-to-Services Continuum

CHANGE IN OFFERING



# An Empirical Study

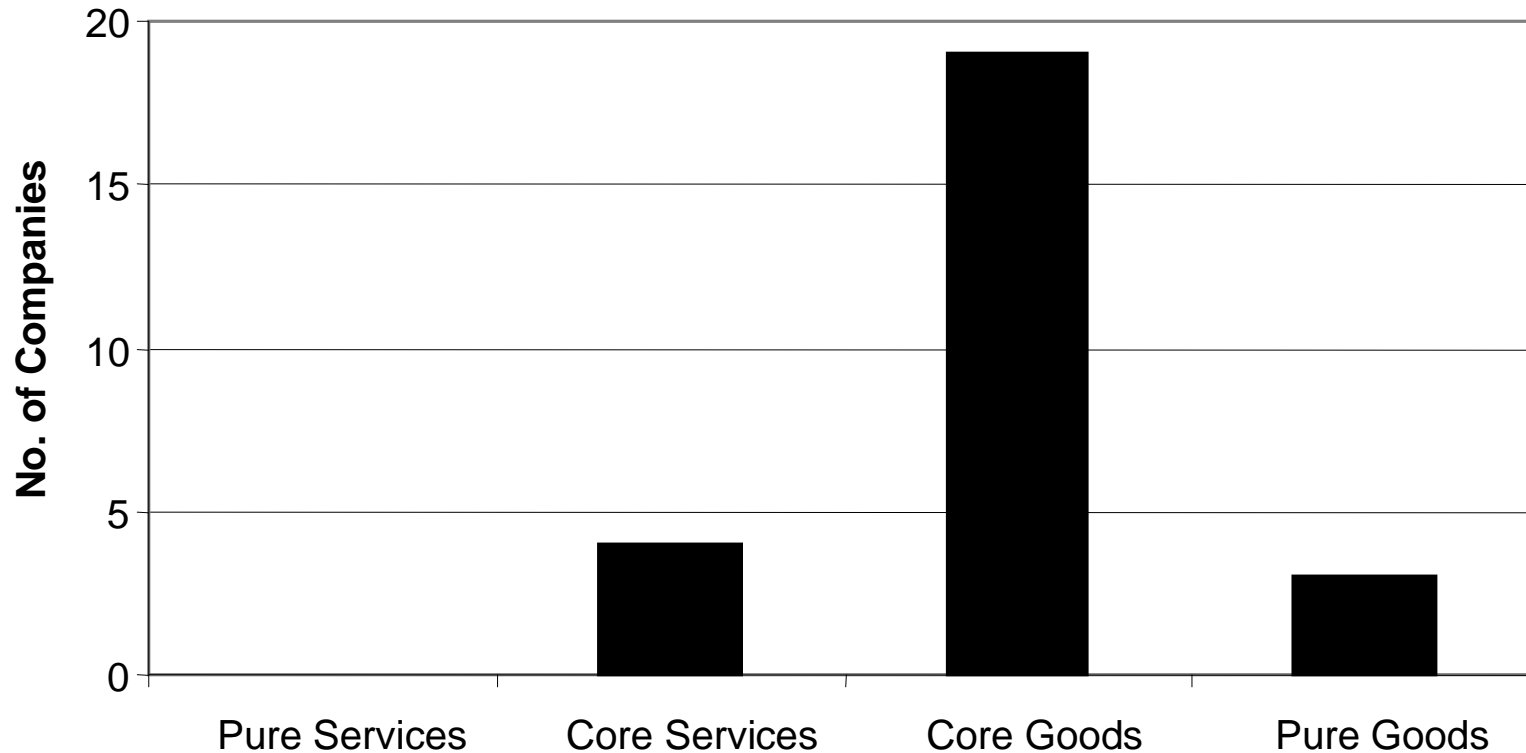
## CROSS SECTIONAL STUDY

- To investigate how industries are positioned on the goods-to-services continuum.
- Selection of companies (n=200)
  - Industry codes SNI 15000 – 45500.
  - On average 150 employees with a turnover of 295 MSEK.
- Survey of Managers
- Research together with Professor Anders Gustafsson and Ph.D. Candidate Bodil Sandén.

# The Goods-to-Services Continuum

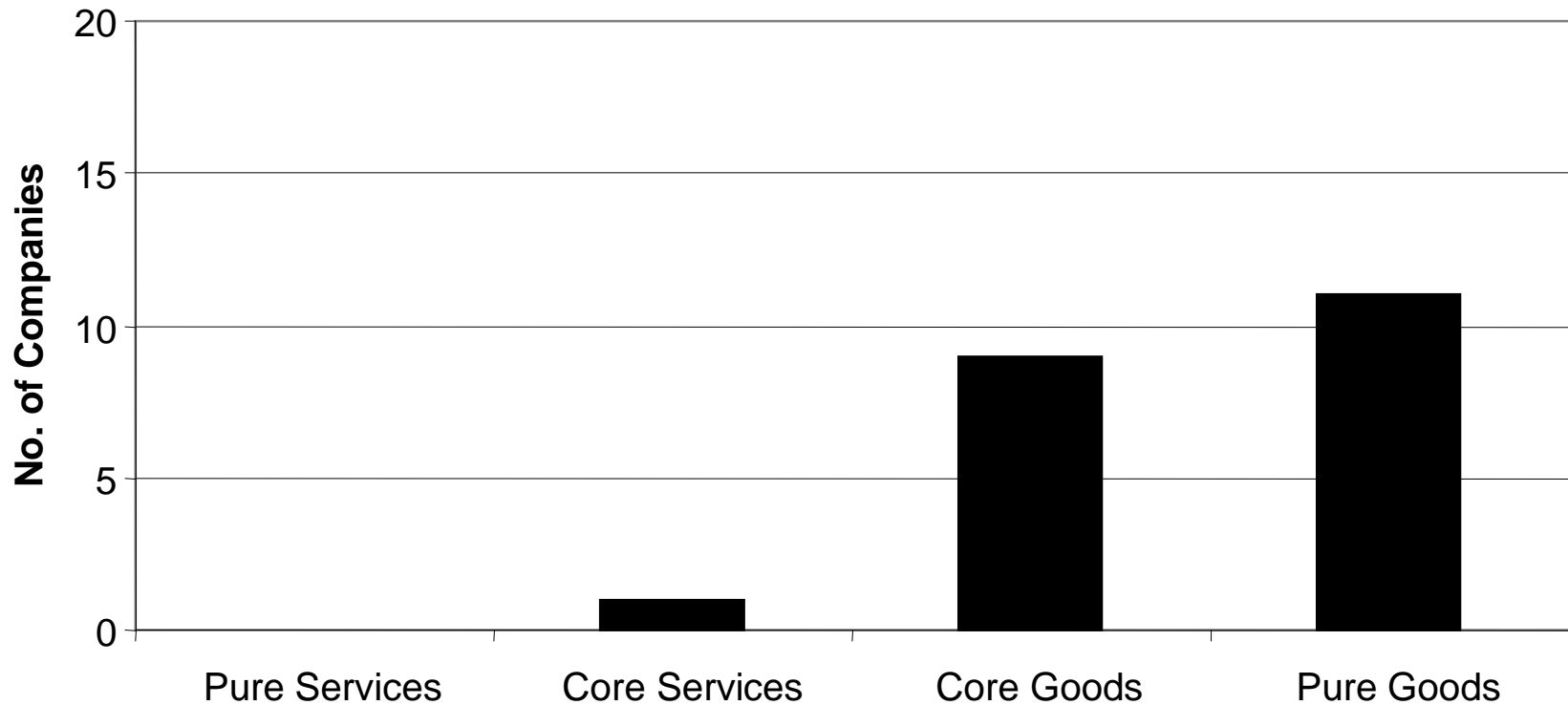
## PULP AND PAPER

- Pulp and Paper
- Plastic
- Metal
- Construction



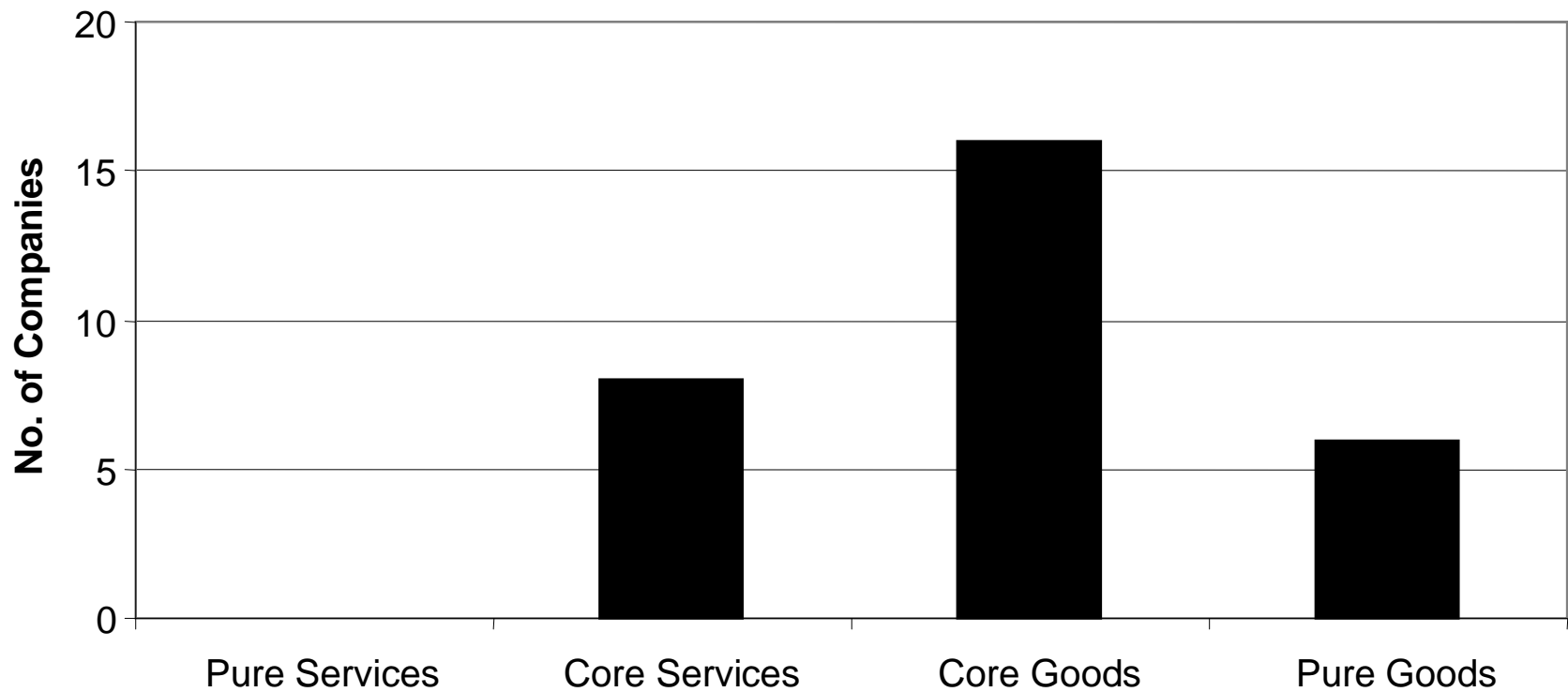
# The Goods-to-Services Continuum

## MACHINE INDUSTRY



# The Goods-to-Services Continuum

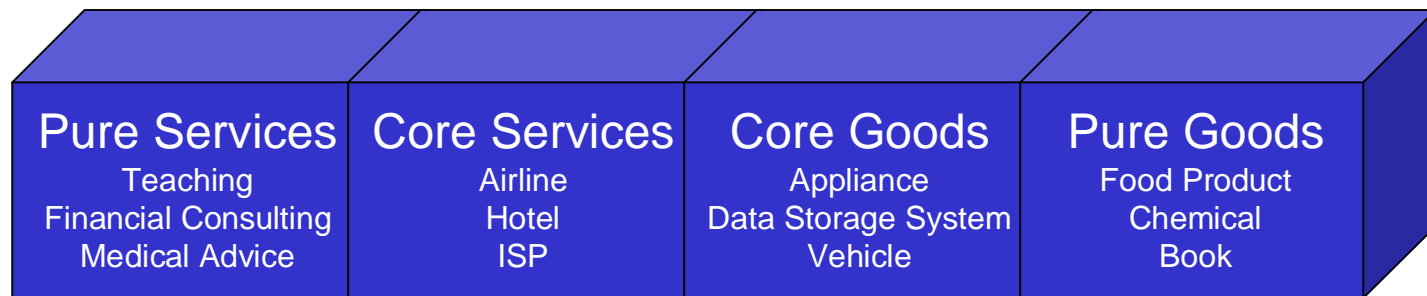
**ELECTRIC**



# The Goods-to-Services Continuum

## SUMMARY : CHANGE IN OFFERING

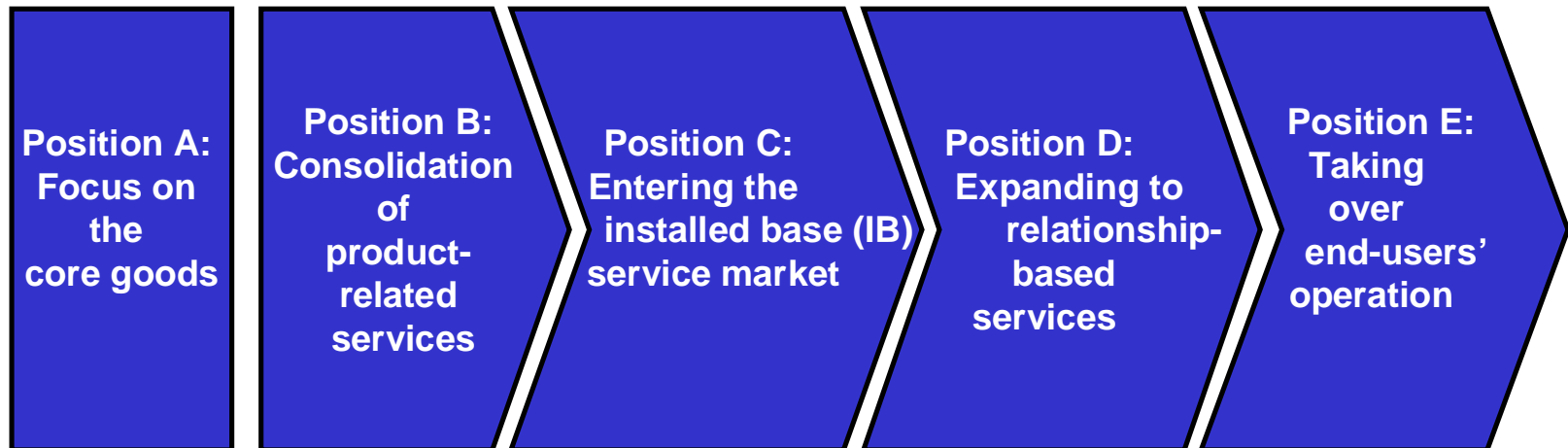
- The degree of Service Infusion seems to differ between industries...



Electric Pulp and Paper Machine  
Plastic  
Metal  
Construction

# The Goods-to-Services Continuum

## CHANGE IN ORGANIZATION



# Position A

## FOCUS ON THE CORE GOODS

- **Description**
  - The focus is on providing goods. Some services are delivered, but they are seen as a cost to be able to sell goods.
- **Triggers**
  - New products from competitors
- **Actions**
  - Excel in product development and manufacturing.
  - Introduce services to increase sales of goods.



**A**

**B**

**C**

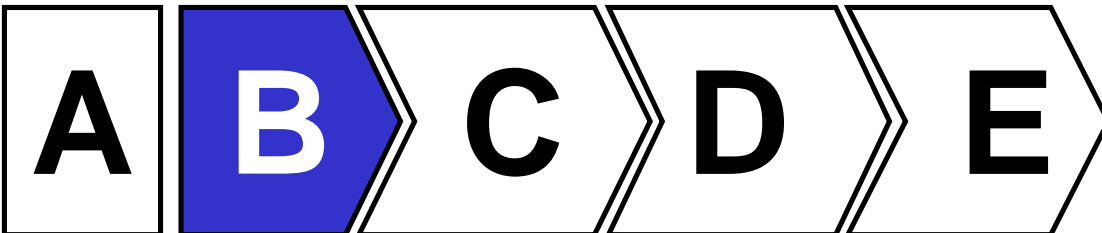
**D**

**E**

# Position B

## CONSOLIDATION OF PRODUCT-RELATED SERVICES

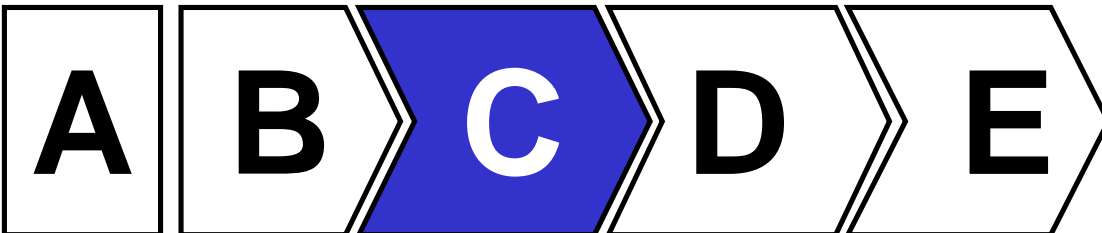
- Description
  - Services are seen as an important ingredient to increase customer satisfaction and it is consolidated within a single organization.
- Triggers
  - Customer complaints
  - Competition
- Actions
  - Move services under one roof
  - Monitor effectiveness and efficiency of service delivery
  - Add services to support quality initiative



# Position C

## ENTERING THE IB SERVICE MARKET

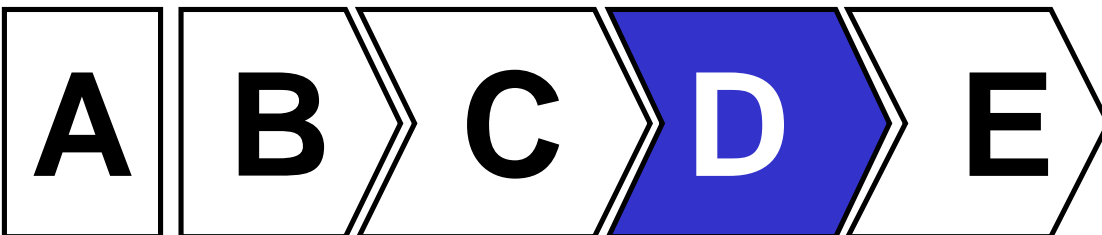
- **Description**
  - Services are seen as a strategy to increase profits. Structures and processes are set up to realize the potential of services.
- **Triggers**
  - Profitability potential
  - Competition
  - Customer satisfaction
  - Change in management
- **Actions**
  - Definition and analysis of service market
  - Creation of a separate organization to market and deliver services
  - Creation of infrastructure to respond to local service demands



# Position D

## EXPANDING TO RELATIONSHIP-BASED SERVICES

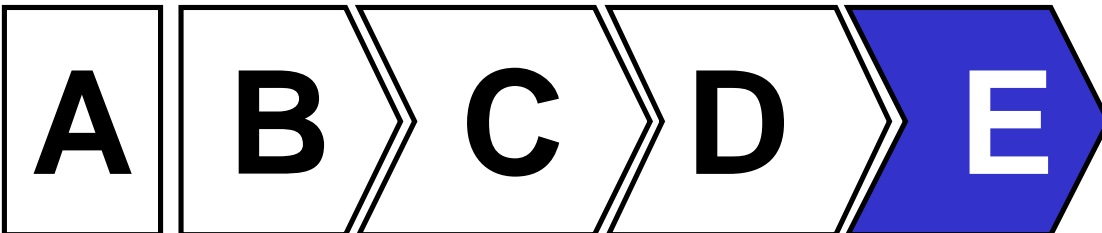
- **Description**
  - A change from transactions to relationships and from value propositions based the product to the end-user process.
- **Triggers**
  - Customer requests
  - Utilization of product development skills
  - Utilization of service infrastructure
- **Actions**
  - Develop consulting capability
  - Achieve cost advantage
  - Assume operating risk
  - Expand to include other manufacturers



# Position E

## TAKING OVER ENDUSERS' OPERATION

- **Description**
  - Organizations take over the entire responsibility of parts of the customer operations.
- **Triggers**
  - A long track record as service provider
- **Actions**
  - Establishing systems for managing long term establishments within customer operations.
  - Development of a new capability



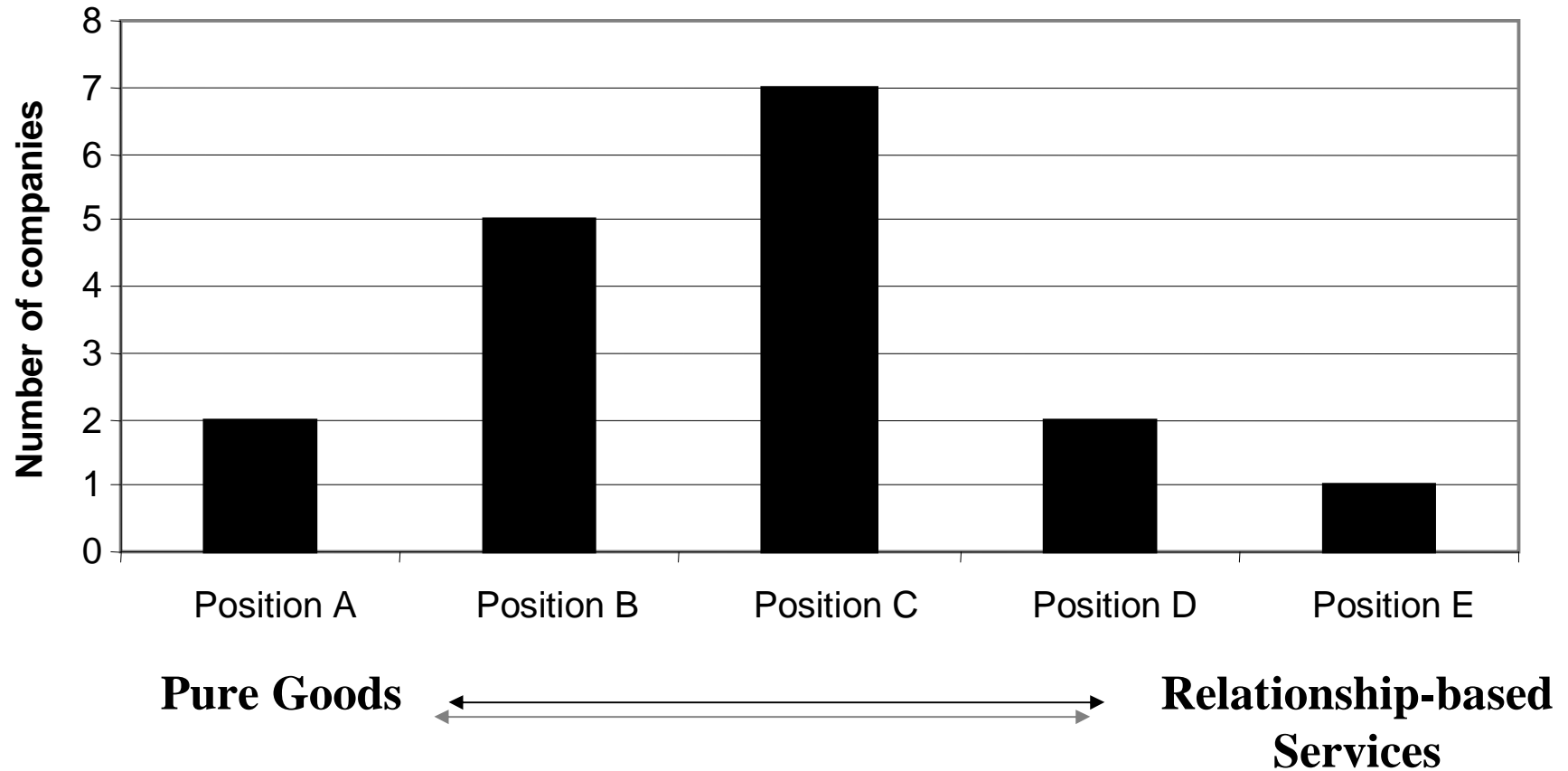
# An Empirical Study

## WITHIN INDUSTRY STUDY

- To investigate how companies position and move on the goods-to-services continuum.
- Selection of companies (n=23)
  - Machine Industry (SNIkod 29)
  - 500-1000 employees
- Interviews with 17 development managers
- Example of Companies
  - Divisions of Ericsson, Volvo, Atlas Copco, Electrolux, Bosch, etc.
- Research together with Ph.D. Anders Fundin from Bombardier.

# The Goods-to-Services Continuum

## POSITIONS



# The Goods-to-Services Continuum

## A COMPANY THAT HAS REACHED FAR

- The services has appeared over the years. Then we have gathered it together in a service division where they are responsible for spare parts and all other after sales businesses.
- There are a lot of services...
  - It is financing of machines, training and education.
  - Total maintenance, where the whole service of a factory is taken over.
  - Contract Management, when both machinery and service personell are leased.
  - Field service are spare parts and services.
- One strategy is to provide a service for free in the beginning, but in the long run we put a price on the service.

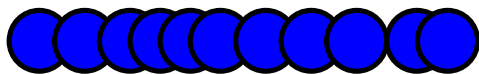
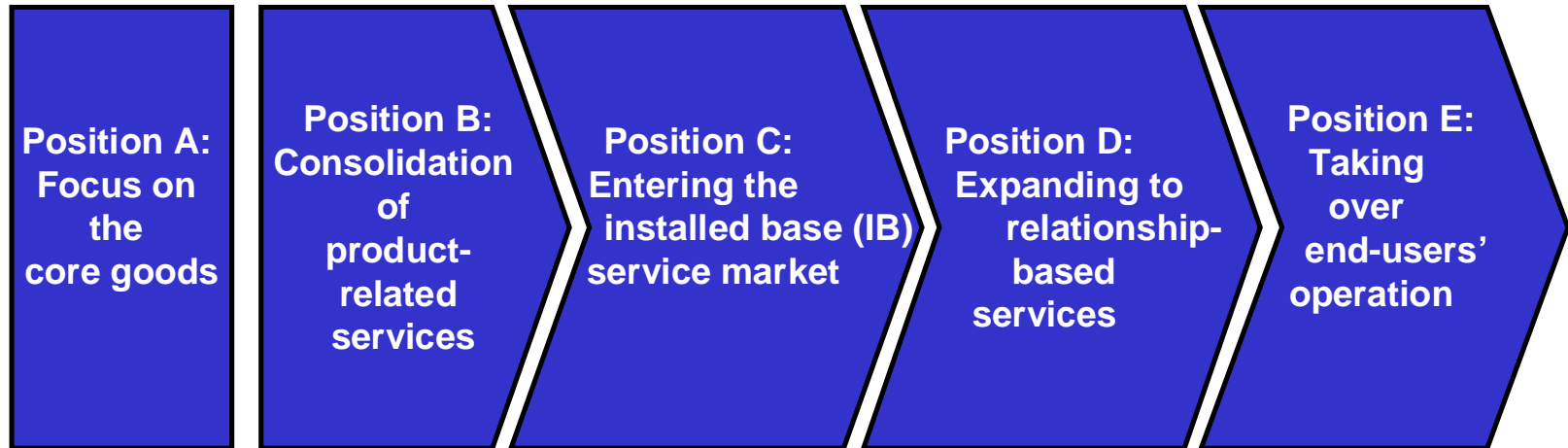
# The Goods-to-Services Continuum

## OTHER EXPERIENCES

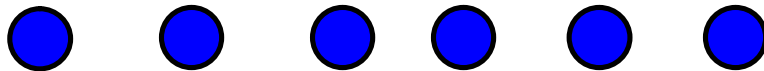
- It happens that we sign a local service agreement with a factory. We guarantee that for X SEK we will repair all machines.
- Often it has ended in more or less **catastrophy, it has costed us to much...**
- We are rather strict with sticking to our core competence.
- The service area is rather special, especially to plan for. We actually need another business model.
- We have not got burnt, but we try to stay within the limits where we are today. It is what we do best!

# The Goods-to-Services Continuum

## MOVEMENTS



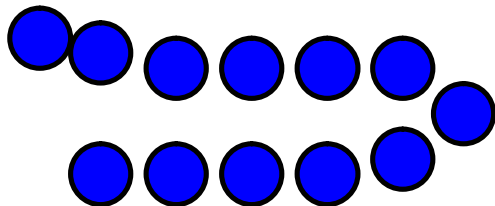
Slow increase of the service content



Fast increase of the service content



Stand Still

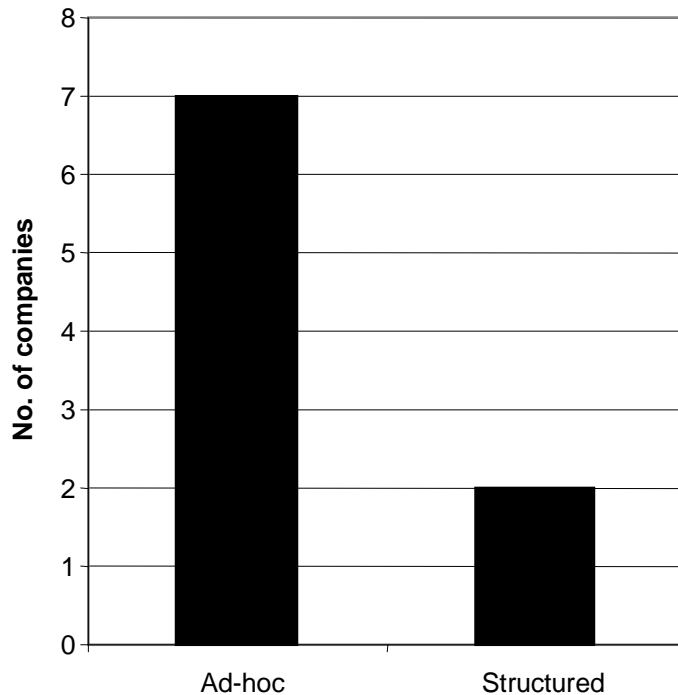


Reduction of service content

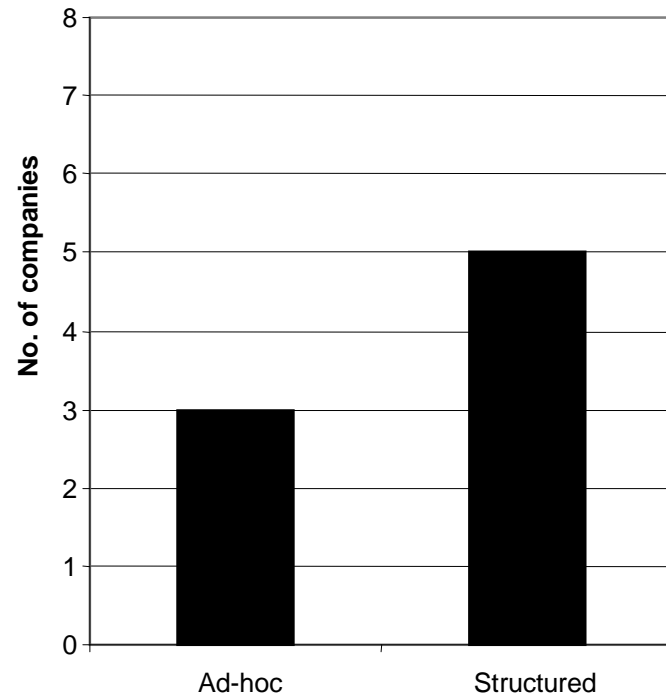
# Service Development

## SEPARATE OR INTEGRATED

- Companies that choose to integrate product and service development.

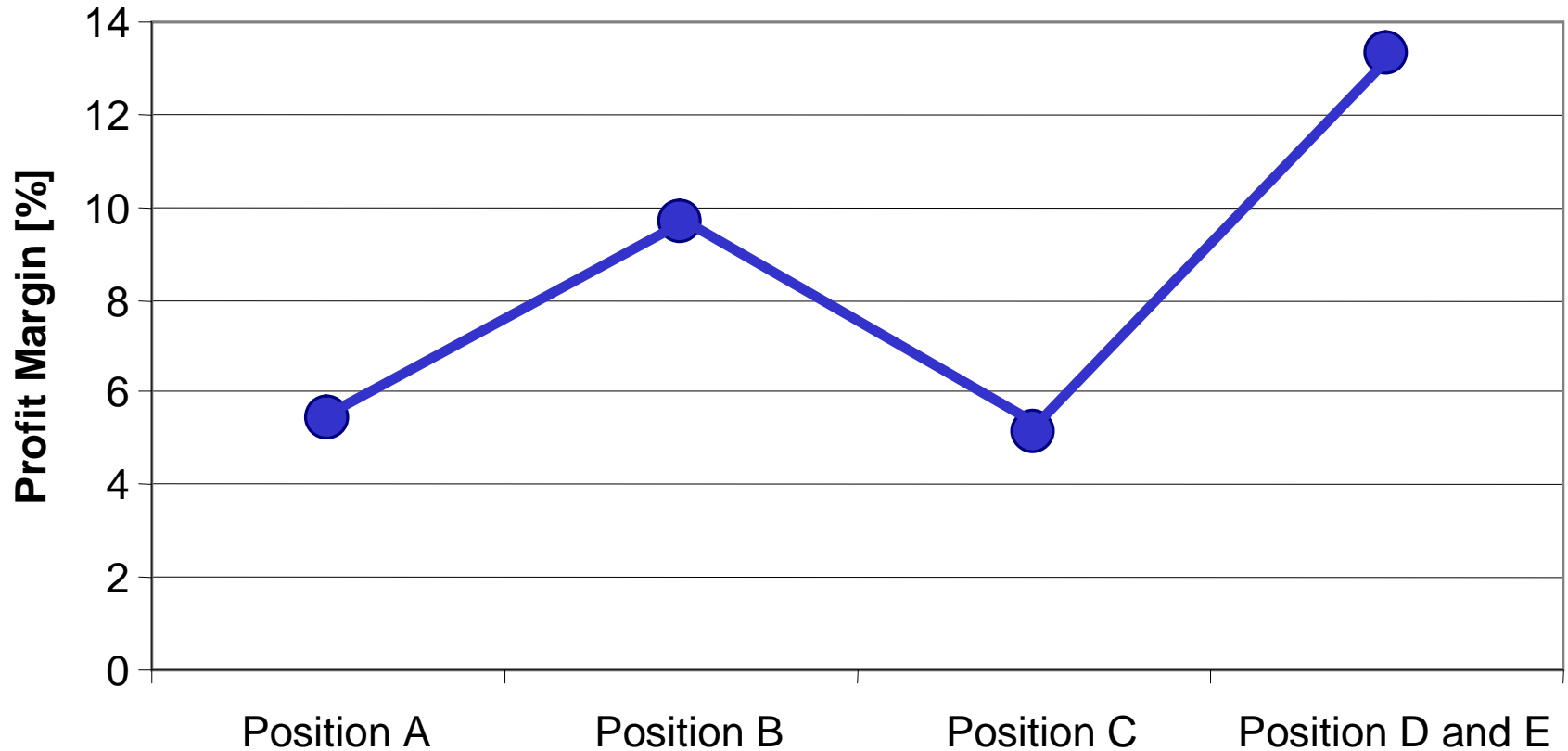


- Companies that separate product and service development.



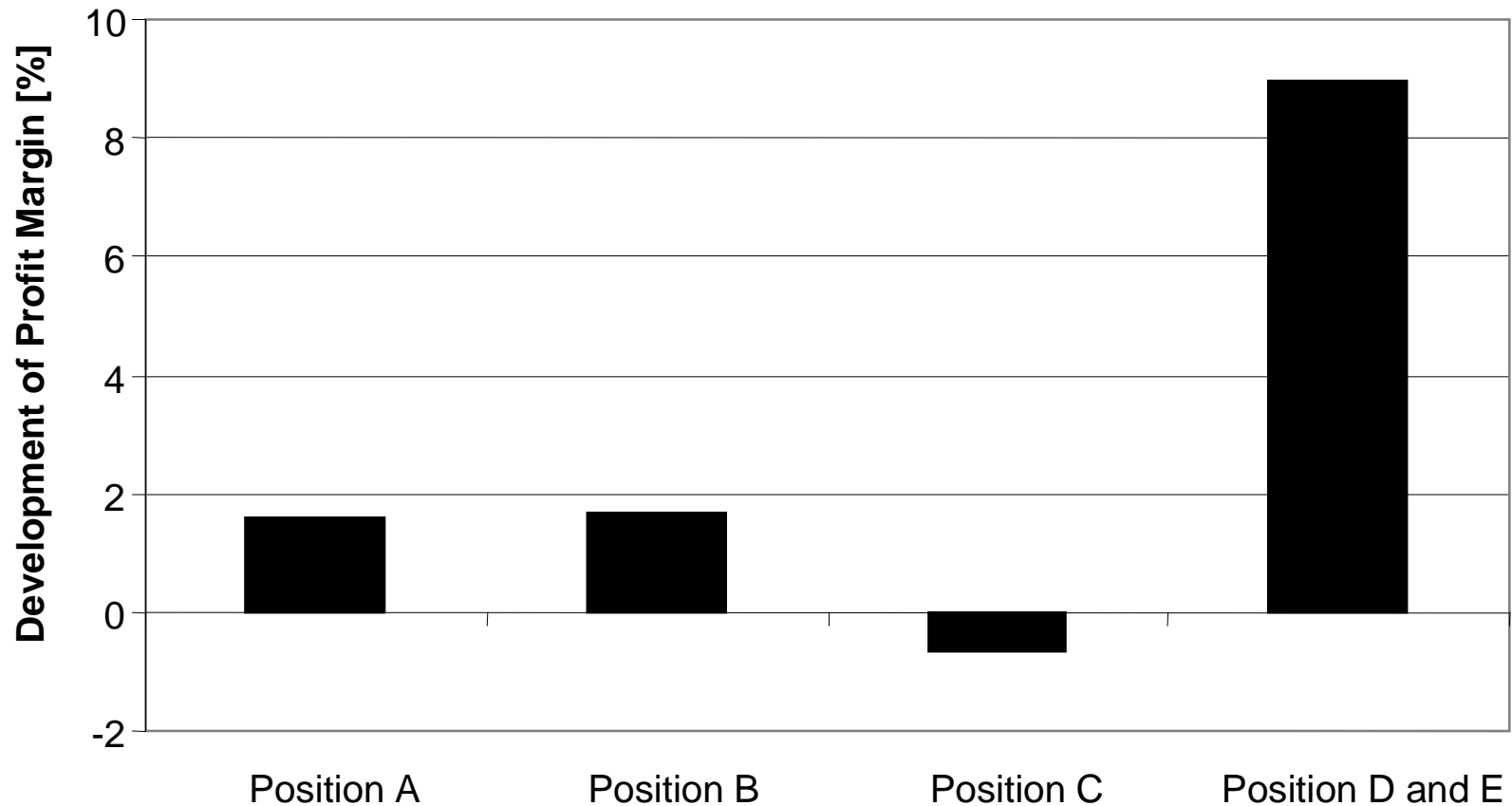
# The Goods-to-Services Continuum

## ECONOMICAL EFFECT OF POSITION ON CONTINUUM



# The Goods-to-Services Continuum

## DEVELOPMENT OF PROFIT MARGIN



# The Goods-to-Services Continuum

## SUMMARY : CHANGE IN ORGANIZATION

- Service infusion appears both on industry and company level.
- There are a number of strategies available, i.e. to find the right position and movements on the goods-to-services continuum.
- Service infusion can be a profitable strategy, but during the “capacity building” period large investments are needed. Investments that takes time to pay off!



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