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978-1-107-02245-4 - Service Business Development: Strategies for Value Creation in Manufacturing Firms

Thomas Fischer, Heiko Gebauer and Elgar Fleisch

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## *Service Business Development*

How can manufacturers of capital goods succeed in service business development? What are the potential network approaches for manufacturing companies planning on extending their service business? Over the last decade, the business environment of capital goods manufacturers has changed dramatically. Few capital goods manufacturers are able to outrun the competition with pure product-related technologies and innovation alone. For this reason they have added services to products as a way of responding to eroding margins and the loss of strategic differentiation through product innovation and technological superiority. Based on over 12 years of research, this book provides academics and business professionals with a thorough overview of the strategies available for value creation through service business development. It features case studies and covers a wide range of topics, including emerging issues such as service business in small- and medium-sized companies, business innovation through services and the impact of rapidly growing Asian markets.

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## *Preface*

Our research aims at improving theory-building (theoretical extension and replication) as well as offering managerial guidance for extending the service business of manufacturing companies. The first phase involved describing and comparing narratives on the extension of the service business in manufacturing companies, as shown in Table 0.1. Comparing such narratives improved the transferability of the qualitative findings, which laid the foundation for developing hypotheses and testing them empirically (Phase 2).

The qualitative studies in Phase 1 show evidence of the ‘service paradox’ phenomenon: manufacturing companies invest in extending their service business but are not able to earn the corresponding returns. Determinants in overcoming the service paradox and improving revenues and profits include (1) managerial motivation, (2) a market-orientated and clearly defined service development process, (3) focusing service offers on the customer’s own value proposition, (4) initiating a marketing relationship, (5) defining a clear service strategy, (6) establishing a separate service organisation, and (7) creating a service culture. These determinants were subjected to more detailed qualitative investigations regarding service development processes, organisational structures and behavioural and cultural implications. Companies seem to acknowledge, for example, that although they have no general service development process or organisational structure, each type of service and/or service strategy nevertheless has specific considerations.

The development and testing of hypotheses in Phase 2 revealed specific patterns in the changes made to service strategy, namely from after-sales service strategy to customer-support service strategy, and from customer-support service strategy to development partner or outsourcing partner strategy. These service strategies require a specific alignment with organisational design elements such as service orientation in the corporate culture (values and behaviour), human resources (recruitment development and compensation) and organisational

**Table 0.1: Overview of the research activities undertaken**

	Phase 1 1997–2007	Phase 2 2008–2011
Goals and research methodology	Building theories for understanding the service paradox; exploring determinants for increasing service revenues and profits Qualitative studies using interviews, focus groups and action research A variety of manufacturing industries enhances the transferability of the findings	Testing theories of specific determinants and antecedents for increasing service revenues and profits Quantitative studies using a variety of surveys, benchmarking approaches and different empirical methods, such as cluster analysis, factor analysis and structural equation modelling
Theoretical contributions	Determinants for overcoming the service paradox Service development processes for different service categories Behavioural and cultural elements and organisational structures supporting the extension of the service business Types of organisational structures supporting the service business extension	Configuration of environmental strategy and strategy structure Patterns of changes in service strategy Impact the service orientation of the corporate culture has on business performance Measurement validation for service orientation of corporate culture (values and behaviour of managers and employees) Interaction between service differentiation, innovativeness and customer centrality for driving competitive advantages Role of dynamic capabilities (sensing, seizing and reconfiguring) in extending the service business
Practical implications	Guidelines, process models and procedures for moving from products to services	Description of potential service strategies in terms of value propositions and service offerings Description of alignments between service strategies and design elements of the organisation Description of how dynamic capabilities contribute to the approach (exploitation vs. exploration) taken to the service business



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structures (proximity to customers and distinguishing products from services).

At the cultural level, a positive association between the service orientation of the corporate culture and the business performance was corroborated empirically and, at the strategic level, the positive role of differentiating service to achieve competitive advantages was corroborated. In addition, the differentiation of services in existing concepts, such as innovativeness and customer centricity, was also incorporated. Service differentiation strengthens the positive impacts of innovativeness and customer centricity on business performance.

All these contributions enhance the theory-building of operational capabilities. These, in turn, overcome the service paradox and ensure service revenues and profits. The insights gained by the operational capabilities (e.g. sensing service opportunities, seizing the sensed opportunities and reconfiguring operational capabilities) are supplemented by the dynamic capabilities that play a key role in determining whether service business is extended via the exploitation or exploration approach. The former uses services to enhance the existing value constellations incrementally; the latter uses services for defining new value constellations, thereby allowing companies to make radical leaps towards a new strategic stage.

The chapters following concentrate on these qualitative findings and offer key insights and recommendations on the managerial level for extending the service business.

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## *Abbreviations*

CAD	computer-aided design
CAS	computer-aided sales and services
CEO	chief executive officer
ECAD	electronic computer-aided design
ERP	enterprise resource planning
IT	information technology
OEM	original equipment manufacturer
PDM	product data management
PLM	product life-cycle management
R&D	research and development
SBU	strategic business unit
SLA	service-level agreement
SMEM	small- and medium-sized OEM