

ORGANISATIONAL TRANSFORMATION FOR EFFECTIVE DELIVERY OF INTEGRATED PRODUCTS AND SERVICES: THOUGHTS ON PRACTICE



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Volume 2: FieldBook

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Acknowledgements

The authors would like to acknowledge the support of the EPSRC/IMRC Transformation to servitized organisational forms' Project under grant number (IMRC 154), which is supporting the Cranfield University Product-Service Systems research. In addition, special thanks to our key collaborators Mr. Des Evans and MAN Truck & Bus UK Ltd., Mr. Mark Adams and Vitsoe and colleagues Prof. Mike Bourne, Prof. Keith Goffin and the Center for Business Performance.

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FieldBook

FOREWORD

To learn more about the organisational transformation for effective delivery of integrated products and services:

Test our Transformations Visual Demonstrator at:

www.som.cranfield.ac.uk/som/transformationsvisualdemo

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Website QR codes for scanning can be found on page 54 and the rear cover

This field book has been produced to help organisations manage their transformation towards effective delivery of integrated products and services. The objective is to provide a simple guide for better analysing and planning this transformation.

The strategic transformation to delivering integrated products and services, also called “servitization”, has become a critical strategy for many organisations to survive and compete on the basis of value delivered. Many organisations have embarked on the transformation journey with expectations of distancing themselves from the commoditization of their existing products, of raising their revenue, of locking-in customers and locking-out competition through the extension of their product-service portfolios and through enhanced customer relationships. High expectations like these are supported by a few exemplary success stories such as those of Rolls-Royce and its Total Care offering and of IBM Global services.

The reality is that organisations transforming into product-service providers face tremendous internal and external changes. Current practices and methodologies offer very little guidance to help identify the challenges or to suggest how they can be overcome. The key reason is that the transformation to the delivery of integrated products and services is wholly dependent on the context; in particular, it is dependent on how far the transformation will go from the *current* to the future product-service delivery position.

To overcome these practical issues and challenges, we have created a novel approach for planning and executing your transformation based on a series of questions that will shape your journey. The research supporting this field book is rooted in the new Service Performance mode of thinking. Using this field book will allow your organisation to:

1. Define its current and future positions on the strategic delivery of integrated products and services.
2. Identify the factors that will assist or hinder its strategic transformation.
3. Ask key questions to guide the transformation.
4. Select ideas from a set of suggestions to help on the transformation journey.

This field book is based on more than three and a half years of intense study and research by Cranfield University on the design, implementation and success of Product-Service Systems. This research was funded by IMRC/ EPSRC under grant number IMRC 154.



“...you build a stronger relationship and you become more of an account manager. So you're not just turning up to visit a customer when they want to buy something.”

*Regional Sales Director
MAN Truck & Bus UK Ltd.*

INTRODUCTION

The servitization of products is not a completely new strategy, and many organisations are capitalizing on the provision of integrated products and services.

This field book does not advocate that the transformation to the delivery of integrated products and services is a strategy for every organisation. It aims to provide a realistic and expert analysis for those organisations considering the transformation and becoming integrated product and service providers.

The transformation process could be a short or a long journey depending on how far your organisation wants to go, whether your market and customers are ready for the change, whether your organisation's capabilities, skills and staff mind-set are adequate, whether you have the right budget to support this type of strategic change, and more importantly whether your top management board is convinced and ready to embark on the journey.

Three and a half years of research shows that there is not one single pill that can cure every organisational malady. Our research demonstrates that transformations to the delivery of integrated products and services are context specific; what works for one organisation or business unit within the same organisation, might not work for others. Hence, grand dreams of achieving a successful integration of products and services are often accompanied by painful periods of planning and analysis of the changes required.

The tools and suggestions provided in this field book are the result of active and retrospective analyses of the real transformations to integrated products and services. 62 organisations, including their CEOs, senior managers, operations people and customers participated in this research. To strengthen the validity and reliability of our research, different research methods were used, including company cases, focus groups and workshops.

This field book is the first practice book to offer a set of analytical questions and suggestions, providing you with the right pointers to better plan and prepare for the challenges incurred by your strategic transformation. In using this field book, you will understand both the enablers and the barriers, and you will be equipped with suggestions for shortening the transformation journey and discovering the right servitization solution for you.

On behalf of the Cranfield IMRC Transformation's team, we hope you enjoy this field book.

Acknowledgements

The authors would like to acknowledge the support of the EPSRC/IMRC Transformation to servitized organisational forms' Project under grant number [IMRC 154], which is supporting the Cranfield University Product-Service Systems research. In addition, special thanks to our key collaborators: Mr. Des Evans and MAN Truck & Bus UK Ltd., Mr. Mark Adams and Vitsoe and colleagues Prof. Mike Bourne, Prof. Keith Goffin and the Center for Business Performance.



THE PROCESS OF TRANSFORMATION TOWARDS SERVITIZATION

This part of the 'Organisational transformation for effective delivery of integrated products and services' FieldBook aims to provide guidance for reviewing the areas likely to be affected by the implementation of the servitization strategy and to help you address issues that may crop up at some time in the transformation process.

Answering the questions to the right will help you better define how to reach your goal (Figure A position 2).

The book is structured in five parts and it provides:

Part 1

An introduction to the servitization phenomenon

Part 2

An analysis to help you identify your original, current and future positions

Part 3

Detailed information about the different forms your servitization strategy could take

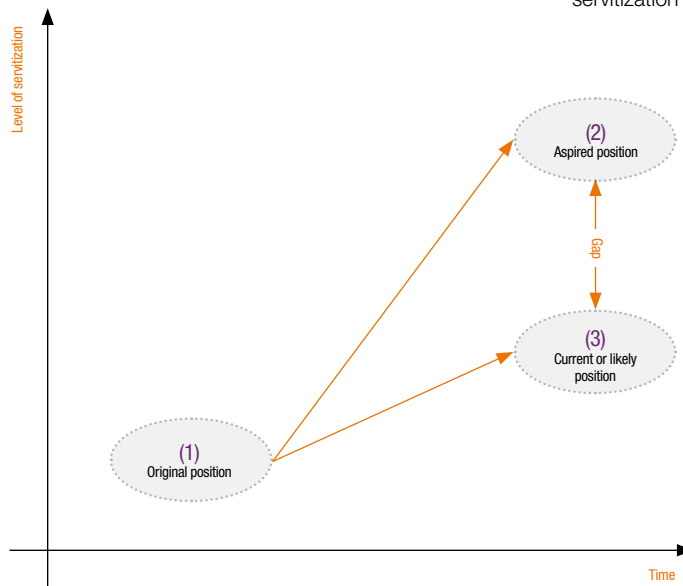
Part 4

Eight key factors that you should consider when servitizing

Part 5

Some case studies of companies undertaking the servitization process

Figure A
Company servitization map



Prior to implementation of servitization strategies you should have clear answers to the following questions (Figure A):

Question

Your answer

What business are we in? (and what business are we really in – and what are the boundaries of that business?)

What business do we want to be in? (and for that, does it make sense to servitize?)

If the answers to these questions continue to point towards servitization, you will have to answer the following question:

Question

Your answer

To what extent do we currently offer products and services and to what extent are they integrated? (Figure A position 1 + position 3)

Once you have a good understanding of your position you will need to answer these subsequent questions:

Question

Your answer

How could we servitize? Are there different ways in which we could integrate a service component with our product-based offering? Which servitization strategies should we consider?

What could help or hinder the process? What are the potential enablers and barriers?

How can we transform our business? How can we get the full benefit from the enablers whilst avoiding being held back by the barriers?

“All of our team of planners are trained to undersell to the customer because we are trying to build that long term relationship, and trust is at the heart of that.”

*Managing Director
Vitsce*



PART ONE

AN INTRODUCTION TO SERVITIZATION

Servitization is commonly defined as “the strategic innovation of an organisation’s capabilities and processes to shift from selling goods to selling an integrated goods and service offering that delivers value in use, i.e. a product-service system (PSS)”⁽¹⁾

Although the phenomenon of servitization can hardly be considered “new” - it has been observed for more than a century^[2] - particularly the last two decades have seen an upsurge in the interest in integrated offerings of product and services. Fierce competition, globalization, and stricter regulation with regards to the impact of products or production processes on the environment force traditional manufacturers to rethink the effectiveness of their business models. For some, the rational for servitization strategies makes good business sense. Others only consider them, because their customers demand them.

Research has identified many arguments in favour of servitization strategies. From a strategic perspective, servitization is argued to increase companies’ ability to lock out competitors, to lock in customers, and to better differentiate themselves from their competitors. From an economic perspective, the rational for the integration of services is based on the additional revenue that can be created from them^[3; 4].

As product lifecycles become longer and the ratio of installed-base-to-new-units shifts in favour of the former, providing service to the units in the field is likely to deliver a more constant flow of returns than merely increasing the installed based. The squeeze of the manufacturing profitability in western economies caused by low-cost imports from the Far East^[5; 6] has driven the interest in the integration of services^[3; 4]. And for good reason; already a decade ago it was estimated that between 30% and 70% of added value in a typical manufacturing company was attributed to the services constituent^[7; 8]. What often clouds manufacturers’ successful integration of services into their product based offering is the difficulty they experience when implementing the organisational changes that the process requires^[9].

This field book aims to provide support in the process that you and your company are / will be going through when successfully integrating services into your product based offering.



This FieldBook aims to provide support in the process that you will be going through when successfully integrating services into your product based offering.

The scope of this book

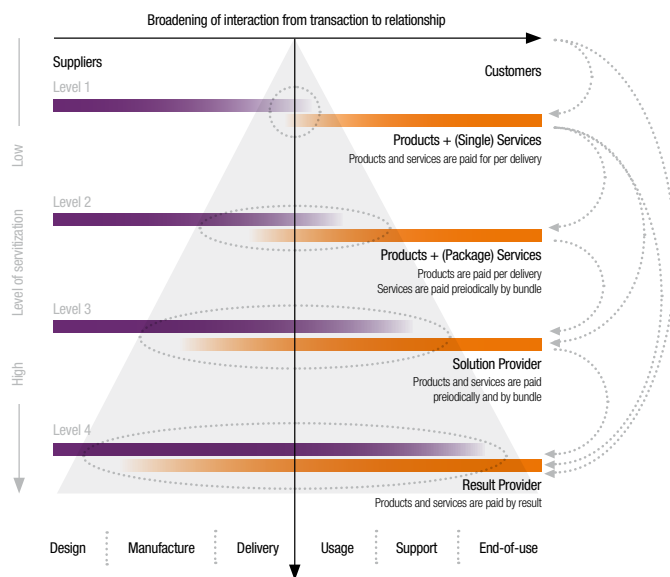
Servitization can take many forms. The definition of a strategy for integrating your company's product and service offering is shaped by your organisation's activities at present. More specifically, your strategy will differ depending on:

- i. Whether your organisation's core activities are service-centric (you are a services provider seeking to integrate product components in your offering) or product-centric (you are a manufacturer/product supplier seeking to integrate a service component in your offering)
- ii. Whether your organisation has already servitized to some degree or whether it has not yet servitized. See figure 1.1 and determine your organisation's position.
- iii. Whether the aspirations of your organisation are modest (you are only seeking to achieve a basic level of servitization – level 1 tending towards level 2 in figure 1.1) or whether they are ambitious (you are seeking to serve your market with a fully integrated offering – levels 3 and 4 in figure 1.1)

The scope of this field book is, in principle, limited to product-centric servitization although organisations coming from a service perspective may still find some suggestions useful. Furthermore, this book focuses in particular on the early stages of servitization – in other words, it is principally aimed at those organisations which at present do not yet provide or deliver an integrated product-service (PS) offering.

Moreover, this book refers only to a specific type of servitization, that which occurs when a company decides to enlarge its PS offering by providing services previously performed by the customer within the existing service chain. Servitization through the introduction of adjacent chains or through the addition of new categories of solutions supporting the stakeholder network surrounding the client (Cova et al., 2000, p.10) are not covered in this book.

Figure 1.1. Servitization continuum: a view of the customer-supplier interface⁶¹



PART TWO

DEFINING YOUR COMPANY'S CURRENT AND FUTURE POSITION

Is servitization a suitable strategy for your organisation?

Once you have recognized that adding a service component to your organisation's product offering may enhance your competitive position, you will need to establish how far to go, what services to offer and, more importantly, how closely you want to get involved in the business processes of your customers.

However, before entering an analysis of the finer details of the services you believe are worth considering, it is good practice to take a step back and make sure that you have clearly evaluated the following four points¹⁰.

1. The business your organisation is in.

Consider the example of MAN Truck & Bus UK Ltd. Whilst the core business of MAN Truck & Bus UK Ltd. at first sight appears to be the import, sales and distribution of high quality trucks, coaches and busses, further study shows that the real business is the provision of road transport solutions and ensuring that these solutions are available when users need them at the lowest cost per mile. Without denying the importance of design and technology, those factors are of secondary importance compared to the cost per mile metric and availability.

2. The business that your organisation could be in.

Once you have established agreement on the definition of your organisation's current business, take time to consider which business your business could be in, in a (hypothetical) servitized future. It is important here is to review the broadest range of options and not to exclude anything prematurely.

In the case of truck manufacturers aspiring to deliver complete transport solutions, the range of services could span from sourcing the best truck for the envisioned use to the sourcing and preparation of, for example, a matching trailer or refrigeration unit, right up to the day-to-day running of that truck on behalf of the haulier on a cost per mile basis. The suppliers' responsibility would include full responsibility for the optimal performance and use of that truck 'from cradle to grave'.



3. The business that your organisation should be in.

Once you have discussed all the different avenues that your organisation could follow to prepare itself for the future, discuss in more detail the types of business that you think your organisation should be in (and why). Discussion about what the organisation should do is likely to centre around the questions:

- What products and services are currently being offered and to what extent are they already offered in a co-ordinated way?
- What are the drivers for those products and services?
- What is the growth potential of those products and services?

Once you have answered the above three questions, ask:

4. What can my organisation do?

At this stage you should review the remaining scenarios (i.e. what should be done) in terms of the resources their implementation would require. Experience shows that servitization constitutes a major managerial challenge and embarking on such a transformation with limited resources may expose your organisation to unacceptable risks².

It is recommended that work on and discussion of the three questions above should be carried out with your management team and employee representatives. Servitization strategies constitute a major managerial challenge⁹ and successful servitization strategies are those conducted by the entire organisation.

The next section provides further information about the various dimensions your organisation's servitization strategy could assume.

"...from a sales perspective, have reviews with the private capital dealers on what we're doing on sales, whether we have to work collectively on new customers to support them. The after sales directors do the same thing: they work closely with the private capital dealers to make sure that if they ever need any more from us they get it."

Regional Sales Director
MAN Truck & Bus UK Ltd



PART THREE

GETTING AN IDEA OF YOUR SERVITIZATION STRATEGY

If servitization is a suitable strategy for your organisation, how far should you go?

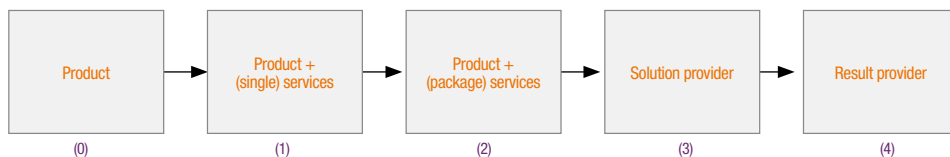
There is not one ideal servitization strategy. Instead, research shows that companies transforming from a product-centric strategy to a totally service-focused offering proceed along a continuum through incremental stages with each stage characterized by varying levels of product and service (PS) offerings^{9 11 12 13 14 16}.

With this in mind we have identified four main steps characterizing servitization levels (see figure 3.1). The transition is from product provider to provider of product and single services (add-on), then to provider of product and services packages, then to solution provider and finally to result provider. Note, however, that not all organisations will seek to transform themselves to that highest level where they become a result provider.

Initial state: product provider

This is the starting point of the servitization process and it is characterized by an offering that includes only the tangible element of the value proposition (goods). The customer is, at the same time, the owner, the user and the decision-maker of the product. The focus of the interaction between customer and PS provider is essentially a product-based one. Moreover, the relationship between the customer and the PS provider is purely transactional and occurs only during the product sale.

Figure 3.1
The main steps of the servitization journey



Becoming a provider of product and single services (add-on)

The first step towards the next stage in the servitization process occurs when the PS provider starts adding single add-on solutions to solve specific customer needs. The services provided could be related to the physical product, to its use (the process) or to the customer's business (the customer him/herself in the case of b2c)¹⁶. The services supporting the supplier's product are characterized by standardized solutions, a low intensity of relationship between the parties involved, and the predominant variables of the expanded marketing mix are the physical evidence. Where services support the process and the business (people), the PS offering refers to highly customized solutions which require a high degree of involvement and commitment from both customers and providers. The transition from a product to a business perspective also influences the interaction between the customer and the PS provider so that it changes from a transactional one to relationship-based interaction⁹. The PS offering, however, is still predominantly product-based (the customer is still at the same time the owner, the user and the decision maker of the product) and the payment formula is "buy and pay for the services as you need them".

Becoming a provider of product and service packages

In the second step along the PS continuum, the PS provider introduces package solutions, a group of services supporting customer needs over a long term. The packages support the physical product and its use (the process) rather than the customer's business (the customer him/herself in the case of b2c). The PS focus does not change. The level of the interaction between the customer and the PS provider starts to evolve into a more relationship-based one. The way the service is priced also changes (from a mark-up for labour and parts every time a service is provided, to a fixed price covering all services over an agreed period) [9], as does the risk level the PS provider assumes in case of product failure. However, as in the previous situation, the product ownership, use and decision-making power all remain the responsibility of the customer.



"...that's not selling a service, that's still a product mentality to a service business."

*Customer Services Manager
ServJet*

FieldBook

PART THREE

GETTING AN IDEA OF YOUR SERVITIZATION STRATEGY

Becoming a solution provider

The next step on the servitization continuum is characterized by the provision of integrated solutions that support the customer’s requirements throughout the product life, from its design to its dismantling. This transition requires the company to change its PS focus and to move from a product view to a process view. It requires a high level of service customization but also a high degree of intimacy, and an improved knowledge of the customer’s business. The payment formula also changes, since the customer does not buy a product and services but just a level of product use. This change implies that the PS provider has to improve their capability when it comes to operating the product, defining the right price (through sound Total Cost of Ownership, TCO, knowledge), and in managing the asset and financial risks (if required) even though the responsibility for and the decision-making regarding product use still remain with the customer.

Becoming a result provider

The final step in the servitization process comprises all the service dimensions. This phase requires a total capability from the PS provider for asset management and financing. Moreover, the company must expand its competencies, its knowledge and its skills regarding its customer’s business, given that product ownership, use and decision-making now fall to the PS provider who is paid on the basis of results achieved.

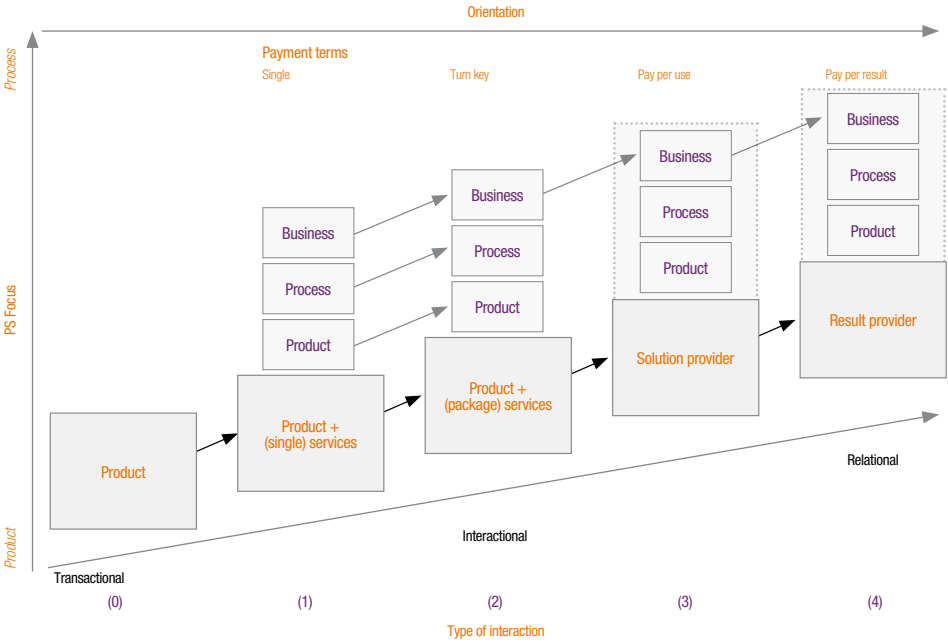
The main characteristics of these four stages are summarized in Table 3.1, while figure 3.2 details the transition mentioned above.

Table 3.1
Main dimension of the PS offering

Orientation	(0) Product	(1) Product + service (single)	(2) Product + service (package)	(3) Solution provider	(4) Result provider
Product ownership	Customer	Customer	Customer	Customer PS provider	PS provider
Product user	Customer	Customer	Customer	Customer	PS provider
Product decision maker	Customer	Customer	Customer	Customer	PS provider
PS focus	Product	Product/ Process	Product/Process	Process	Process
Type of interaction	Transactional	Transactional	From transactional to relational	Relational	Relational



Figure 3.2
Linking the main steps of the servitization journey with the PS offering dimensions



PART FOUR THE SERVITIZATION FACTORS

What factors do you need to consider when planning to transform your organisation from its current position as a manufacturer (product-centric supplier) to the aspired position of a supplier of fully servitized offerings?

Research indicates that implementing servitization strategies is not for the fainthearted. The general experience is that product and service delivery require a very specific mind-set, as much on the part of management as on the part of employees. For this reason there may be many internal (organisational) as well as external (market) factors that could push implementation of the servitization strategy off course.

This section of the field book discusses a number of generic factors that have been observed in practice and in literature. These considerations can be particularly useful as you seek to answer the following questions:

- What factors (can) help integrate products and services? (establish the extent to which you are exploiting your capabilities)
- What factors could complicate PS integration? (establish the problems you could encounter or, when already integrating products and services, which factors could cause you to lag behind in your integration efforts)

These factors need careful analysis as they could either facilitate or hinder the envisioned servitization strategy.

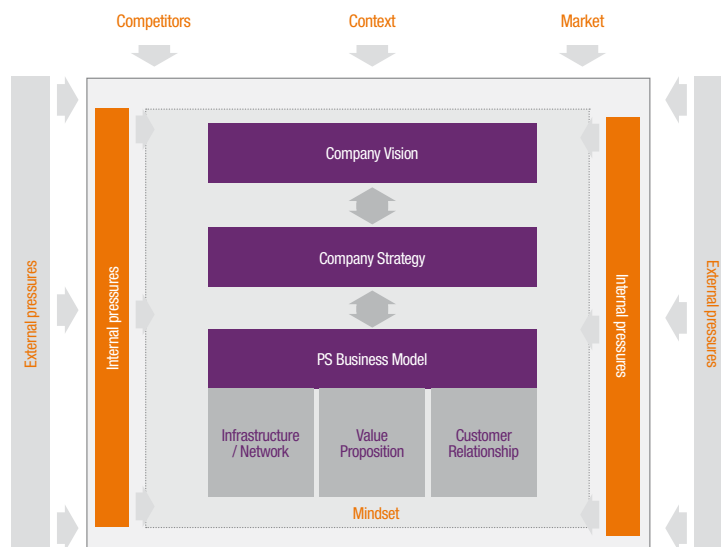


Figure 4.1
The servitization context



Introduction

Servitization requires significant changes in organisations' business models. They need to align the business model with the strategic vision and with the environment in which they operate (taking into account customer preferences, competitors' offers and legislation). This transformation drives product-based manufacturers to re-design their value proposition (PS offering), their organisational principles, structures and processes^{17 18 19}, capabilities²⁰, relationships with customers²¹ and suppliers²². So if an organisation makes the decision to proceed along the servitization path it may face a number of different challenges. A whole range of internal and external factors may either speed-up or delay implementation of the servitization strategy (figure 4.1, left).

Researchers have extensively examined servitization factors^{3 5 9 23 24 25 26 27} and there is ongoing discussion about which factors support (or hinder) the servitization of manufacturing companies. We have identified eight main factors (figure 4.2) that have been found to affect the process. Each of these is briefly described and analysed right.

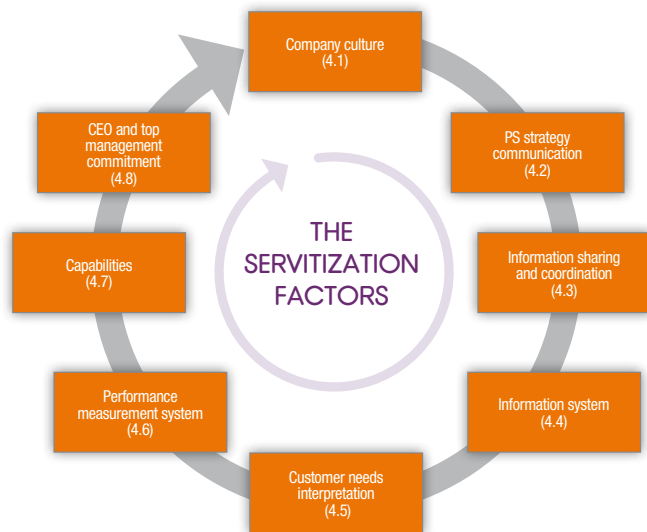


Figure 4.2
The main eight factors affecting the servitization



PART FOUR / 4.1 A PRODUCT-BASED CULTURE

“MAN, with its history, has been renowned as an engineering company... look at all the things that have been achieved, air suspension, turbo charging, building their own engines...”

*International Key Account Director
MAN Truck & Bus UK Ltd.*

Organisations over time tend to develop a distinct corporate culture. Together with the product offering, it is often this same company culture that sets the company apart from its competitors.

If, traditionally, the focus of organisation has been product-centric, it is very likely that the company culture will also be so. Research demonstrates that the servitization process can be negatively affected when an organisation's culture is excessively product-centric. It has been found that employees in such contexts may find it difficult to adopt the mind-set required to understand and support the service component of the offering. Therefore, before starting to strategically integrate a service component to your product offering, you should analyse the existing culture within your organisation, division or department. Specifically, you should ask yourself (and the people in your organisation) the following questions:

ASK YOURSELF:

How do we currently describe our offering to the outside world?

Product minded people distinguish their offering predominantly through an emphasis of the features and the technological attributes. The delivery of an integrated product service offering, however, requires the people in your organisation to think beyond the product itself and also to consider the way the integrated product service offering makes a positive contribution to the customer's business model. In other words, how do the goods and services you deliver enhance the business processes of your customers, regardless of the features, appearance and technical details? Think about how you describe your offering: is it in terms of the specific characteristics of the goods and/or services or is it in terms of the potential solutions they may bring to your customers?

ASK YOURSELF:

What is the mind-set of our organisation: is it engineering driven or is the service concept already part of our company thinking?

In their conversations and meetings, managers or employees with a product-centric mind-set tend to emphasize the role and technical features of products they produce. Increasingly those conversations need to include post-sale aspects of the integrated offering (e.g. the performance of the delivered goods, their maintenance, their availability (the uptime) etc.) in order for the mind-set of your employees to become more service driven. Without this change in mind-set, the transition to servitization may be hindered.



The biggest mind-set change is in the corporate culture of our back office staff in dealer land, ... for them to treat customers in the right sort of way, and in a very proactive way ...”

*After Sales Director,
Man Truck & Bus UK Ltd.*

ASK YOURSELF:**How do we see our customers, as product buyers or as key elements in the value creation process?**

When you are seeking to integrate services into your offering, your concept of the customer relationship should change from a value-in-exchange perspective to a value-in-use perspective. In other words recognizing that value is not created by you and distributed to your customer in exchange for money, but rather that it is a co-creative process between your company, your network partners and your customers. This shift requires a change in the way the delivery of your offering is formulated. The use of more comprehensive contract (contracts that emphasize not only the transaction but also the use, performance and maintenance of the product after delivery) will have to be formulated.

ASK YOURSELF:**To what degree is the interaction with my organisation's key customers transaction-based or relation-based?**

The more you seek to integrate a service component with your offering, the more the interaction between you and your customer will go beyond the sales transaction. In other words, the focus of the relation will increasingly shift to the phase following handover of the product (the use phase). Moving from a transactional to a relation-based perspective also requires an increase in the number of touch points with your customer both over time (temporal) and through different channels (spatial).

SUGGESTIONS AND RIGHT POINTERS:**What can you do to temper the negative effects of a predominantly product-based culture?**

- Learn to better understand your customers' requirements and needs through focus groups and workshops and disseminate these findings throughout your organisation
- Explain explicitly the role that the service component in your offering plays in serving those needs and requirements (and how it does so)
- In your reward system introduce incentives linked to service provision performance
- Invest in educational and training programmes specifically related to service and customer management and interaction
- Introduce job rotation programmes. These will enhance both the success of your PS integration and the employability of your staff throughout the organisation
- Protect the emergent service mind-set by creating opportunities and assigning time in meetings to discuss the importance of integrating a service component in a traditionally product-centric offering



*"...still a "traditional" organisation
– you know weight, cost."*

*Repair Engineering Manager
ServJet*



PART FOUR / 4.2 PS STRATEGY COMMUNICATION

“Our challenge for the business is constantly making people aware that this stunning service comes with it and often customers only really discover how good the experience is afterwards; and for us to frontload that process and make it very clear to them what they are going to get upfront is very difficult, because nobody really believes you upfront. That is most the difficult thing for us is to get across: the value of the service offering that we have.”

*Managing Director
Vitsce*

To support the servitization processes, the product service strategy should be explicitly and clearly communicated to all those affected by it, as is demonstrated by the research.

However, if the mind-set of management is still anchored in a product-based perspective, when the decision is made to integrate a service into the product based offering they risk communicating an incoherent and inconsistent message about the PS strategy. There is also the risk of different degrees of awareness of the PS strategy existing at different levels of the organisation or at different points in the PS network. Inconsistency in the internal PS strategy communication is often reflected in an incoherent external communication of the PS strategy.

Before starting to strategically integrate a service component with your product offering you should analyse how your (intended) PS strategy is going to be communicated internally within your organisation as well as to your network partners. Specifically, when referring to the internal PS strategy communication, you should ask yourself the following questions:

ASK YOURSELF:

How and what does our organisation communicate about the PS strategy to our divisions, departments and network partners?

Communication is the way an organisation expresses its common language and its mind-set. Members of the organisation need to think “like a customer” and this, in turn, will allow a consistent delivery of the integrated product service offering to the actual customers.

ASK YOURSELF:

What can you do to facilitate a consistent internal PS strategy communication?

- Make explicit the value proposition that underscores your PS strategy (put it in words)
- Use banners and slogans around the organisation to imprint the servitization message on people’s day-to-day reality
- Put the value proposition in context, making sure that your employees and partners can relate to it from their diverse functions and responsibilities
- Develop, communicate and discuss your plan of action (the servitization strategy) with all the stakeholders involved
- Clearly explain what the impact of the PS offering is on those who have to sell/deliver it
- Align your performance measurement system with your product service strategy (“forcing” the understanding)
- Write and communicate case studies and anecdotes of successful development, sales and the delivery of integrated offerings
- Exploit every possible communication channel to communicate the message (intranet, sales meetings, internal publications, notice boards, posters, social media etc.)
- Train people to think in terms of integrated offerings and make sure that they understand the impact the offering has on the way products and services are sold and delivered



“The customer-facing areas have not spent enough time and do not know enough about how they get the voice of the customer back in the engineering function, they are both guilty of living in the here and now, quite parochially, and that will change.”

*Human Resource Manager
ServJet*



ASK YOURSELF:**How and what does our organisation communicate about the PS strategy to our customers and the market in general?**

Research has identified situations where organisations felt that changes to its product offering are in the customers' or suppliers' best interest, but where this was not actually recognized by the customer/supplier themselves. Instead the integrated offering may have confused them or have given them the perception that they were overcharged.

ASK YOURSELF:**To ensure the clarity of your external communication of the PS strategy, you should ask yourself the following questions:**

- How are we exploiting the media to communicate that message (including through channels such as the internet and social media)? See the example of MAN, <http://www.man-tco.co.uk/>
- Are our organisation's pricing policies clear, well communicated and in line with the new strategy?
- Is the integrated offering communicated consistently by all our customer-facing units (i.e. are we all sending out the same message, in deeds and words)?
- Have we verified the clarity of the message with our customers? In other words, is the message as clear to them as it is to us? Are the conclusions that our customers draw from the message correct?

SUGGESTIONS AND RIGHT POINTERS:**What can you do to stimulate consistent external PS strategy communication?**

- Provide a clear pricing policy
- Exploit every possible communication channel to carry your message
- Organise focus groups with your key customers in order to determine whether your PS strategy has been received and how you could improve your external communication

"I believe it is communication. They need to hear more from us. If I was investing a few million pounds in a dealership, I'd want to know what the mother ship is saying, more regularly. And I do believe we do have to do that. You asked me what we need to do. I do think we need to communicate more with them."

UK Retail Sales Director
MAN Truck & Bus UK Ltd



PART FOUR / 4.3

INFORMATION SHARING AND CO-ORDINATION

“If you are offering a remanufacturing solution for your own product it is fairly straightforward because you control the IP (Intellectual Property), you control the drawing, all the technical capability and you have access to every piece of data you need. So, internally it's pretty straightforward... If you are looking from an external viewpoint you have third party companies doubtless controlling the technical data and having access to the technical data from engineering, drawing specifications, manufacturing processes, tolerances, etc.; because a lot of that is individually-controlled IP and you can't do a remanufacture unless you get into the same level of detail as the original manufacture; and whilst a lot of companies are happy to do that, a lot of companies are also not happy to do it or they're not companies with that degree of control of data that you would necessarily expect. So if you had something manufactured ten, 15 years ago, the ability to actually have that level of detail doesn't always exist today. So that is some problem.”

Commercial Director
ABC Remanufacturing Services

Comprehensive vertical and horizontal information sharing and co-ordination supports the implementation of the product service strategy. Compared to the provision of products, the provision of integrated product service offerings entails much higher levels of co-ordination of multiple organisational units. To facilitate this co-ordination, it is imperative that information is shared in all directions (bottom-up – from customers to the company, top down – from the company to the customers, and horizontally – between department, divisions and network partners (see figure 4.3). Especially when external partners are involved, inter-communication / co-ordination is essential to avoid a fragmented and contradictory explanation and implementation of the PS strategy.

To get a good overview of which activities are co-ordinated and which information is being shared (and the extent to which it is being shared) you should ask yourself the following questions:

ASK YOURSELF:

How to communicate our servitization strategy (including information on the progress of the implementation) to all those affected (top down)?

Your PS strategy must be communicated coherently at all levels of your organisation and to your partners and to customers who participate in the delivery of the PS offering. A broad and common understanding of the offering is essential to avoid disagreement on the deliverables and the expectations of your PS strategy.

“These are people from my department, these are the field managers, the regional managers, technical customer support. Their role is very much working with the dealers to improve standards, to deal with any customer complaints, deal with anything... to maintain the relationship between the customer and the dealer, the customer and MAN and the dealer and MAN.”

Head of UK Service Support
MAN Truck & Bus UK Ltd



ASK YOURSELF:

What information do we disseminate to our employees, network partners and customers?

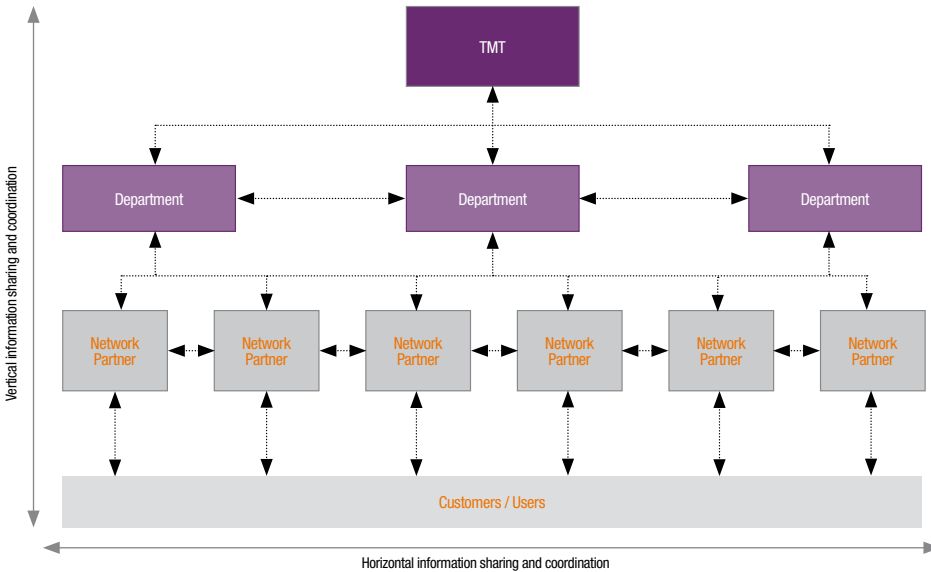
Within a complex network, different partners need different information (in terms of volume, type, accuracy, and frequency) depending on their specific goals, the scope of their work, their role and responsibility. However, the information provided is often different (in terms of volume, type, accuracy, frequency) regardless of whether it is disseminated internally and to an owned subsidiary or to an external service partner involved in the same process and having the same role and responsibility (see workshops). In other words, whilst the language in your relationship has changed, the way some partners are treated remains the same.

ASK YOURSELF:

How to make our employees, network partners or customers share information (through obligation, incentives or otherwise; bottom up - top down - horizontal)?

There are many factors arising from both the internal and the external environment of the organisation that can impede a comprehensive sharing of information and the effective co-ordination of activities within your organisation, or between your company and your network partners and customers. These factors include internal politics, an atmosphere of uncertainty and legal constraints. The implementation of well-defined incentives linked to an appropriate reward system as well as the introduction of specific clauses in contracts may stimulate employees and partners alike to share information and co-ordinate those activities in a way that could facilitate the successful delivery of an integrated product service offering.

Figure 4.3
Vertical and horizontal information sharing and coordination



"We get together and we define the agenda of the issues that we think we can tackle and we get together for half a day somewhere else and we tend to take it somewhere different so that we can learn about a different sector..."

Human Resource Manager
ServJet



FieldBook

PART FOUR / 4.3

AN INTRODUCTION TO SERVITIZATION

ASK YOURSELF:

What information do we receive from the market (through customers, network partners and employees)?

The quantity of information an organisation receives, is often excessive and largely unstructured. Much of it is passed upward from a range of external sources and it can relate to many different issues. Its accuracy and frequency varies and is often dependent on the type of received information, the source (customer, external partners, internal departments, etc.) or the channel (direct contact, internet, media, internal reports etc.). Despite this your organisation must be able to process that information and share in the interpretations and responses while still avoiding any possible misunderstandings that could jeopardize co-ordination of your service network.

ASK YOURSELF:

How to receive and respond to feedback regarding our PS offering from our customers, network partners or employees (bottom-up)

For a variety of reasons, efforts for implementing a coherent PS strategy within the service network can often be voided by the very organisations trying to implement them. Sometimes the managers responsible for the servitization efforts are either not interested in or they simply forget to provide the feedback. In other cases the organisation is not sufficiently prepared or organised to receive and interpret the vast amounts of information passed upwards through the delivery chain. Then again, in other cases, even when the feedback is received and interpreted, no action (or insufficient action) is taken to change or improve the PS strategy.

ASK YOURSELF:

What information do we need (or want) to receive from the market (through customers, network partners and employees)?

Sometimes, despite the abundance of information, what you receive does not meet the requirements of your organisation. As a consequence the information cannot be used by managers or can only be partly used to improve or change the PS strategy and to implement new operative actions.

ASK YOURSELF:

Which activities between employees, departments, network partners and/or customers should be co-ordinated?

Not all the activities performed require strict co-ordination as only certain of them are inter-linked. In order to better manage the event chains affecting your project schedules you have to identify these activities, their logical links, and the roles and responsibilities relevant to their management ("who does what").

"We have a global conference every year, we have some compact metrics available in terms of websites and we continually work on that, so those are the things again that we've done centrally and help to articulate and communicate with the company."

Human Resource Manager
ServJet



ASK YOURSELF:**Which activities should be better co-ordinated?**

Failing to achieve the intended result, or achieving a lower than expected performance, is not always the result of a failure to co-ordinate activities within your organisation, or with the service network partners involved in provisioning a new integrated solution. Sometimes a good or bad result is simply the result of an unco-ordinated activity between two single departments or between your front office and the final customer.

ASK YOURSELF:**Have we experienced any issues (disagreement / delays) that can be attributed to a lack of information or co-ordination?**

Poor co-ordination, or an absence of co-ordination can lead to internal and external disagreements It can also delay your transformation process, making the introduction of integrated packages into your offering potentially much harder and much more risky. Examples of such situations can prove useful in understanding what and why transformation has not happened in the right way or at the right time.

SUGGESTIONS AND RIGHT POINTERS:**What can you do to facilitate information sharing and co-ordination?**

- Dedicate sufficient resources to educational and training programmes on the economic and operational aspects of integrated offerings
- Define clear roles and responsibilities for managing the delivery of the integrated offering
- Dedicate sufficient resources to relation building and networking between employees, departments, divisions, network partners and, to a certain degree, customers through formal and informal meetings, social media, etc.
- Establish a clear governance structure to deal with any disagreement or delays.
- Define clear contingency plans to deal with instances in which co-ordination fails.



PART FOUR / 4.4 INFORMATION SYSTEMS

“This company has got a few databases, so how do we know who the customer is? How do we know whether a customer is a good customer or a bad customer?... I want to really analyse what a customer is worth.”

*After Sales Director
MAN Truck & Bus UK Ltd.*

The presence of a formal infrastructure for collecting and processing data about interactions between your organisations, network partners and customers facilitates the implementation of an integrated product service offering.

Engaging in a close dialogue with your customers allows a better understanding of their business needs. This dialogue does take place between individual representatives of your organisation and your customers but it also includes, indirectly, all the departments involved, the divisions and network partners who contribute to the delivery of the integrated product service offering.

In order to facilitate this dialogue it is imperative that all partners have access to comprehensive, accurate and complete information. To understand if your information infrastructure is capable of providing this information to all the partners you should ask yourself the following questions:

ASK YOURSELF:

How to put information systems in place that provide access to comprehensive, complete and accurate data about the integrated offering?

Collaboration requires individuals to work together in a co-ordinated fashion and towards a common goal. A proper information system helps action-oriented teams to align their efforts and improve the collaborative process between units working together over geographical distance. Additionally, it facilitates the assignment of tasks, management of deadlines, and calendar sharing. A proper information system not only provides the necessary data, it also requests users to complement any data shortfalls. It eliminates data redundancy and ensures accuracy.

ASK YOURSELF:

How to put information systems in place that provide adequate levels of compatibility and connectability to facilitate optimal information flow among our organisation, our network partners and our customers?

Sometimes even when the information system is fully integrated and allows for sharing complete, comprehensive and accurate information, it is not compatible with the information systems of other partners in your network. As a consequence every transaction you or your partner does needs to be transferred from one system to another, implying extra costs and risks.



“We have no CRM programme in the After Sales so we desperately need that.”

*Head of UK parts
MAN Truck & Bus UK Ltd.*

ASK YOURSELF:**How to put in place a coherent and structural process to obtain an understanding of customers' buying behaviour?**

Even when the information system is fully integrated, complete, comprehensive, accurate, compatible and connectable, information about customer buying behaviour may not be used or cannot be used effectively, because the structured processes needed for understanding and interpreting your customers' buying processes are not in place.

ASK YOURSELF:**How to put information systems such as Supplier Relationship Management (SRM) and Customer Relationship Management (CRM) in place, and link them to existing systems such Enterprise Resource Planning (ERP) systems?**

Linking SRM and CRM into an ERP system allows you to integrate the different perspectives of your organisation, your partners and your customers. Moreover, integrating information belonging to service management into such a system may allow your organisation to better support customers in their product use throughout its lifecycle.

SUGGESTIONS AND RIGHT POINTERS:**What can you do to improve your information system?**

- Invest in unified and integrated information systems (e.g. Supplier Relationship Management, Customer Relationship Management and Enterprise Resource Planning)
- Introduce information systems with less of a financial and more of an operational focus (e.g. Six Sigma)
- Develop simple and user-friendly interfaces
- Train your employees to use, apply and update the information system
- Carefully consider what information is useful to your organisation and ensure the system focuses on this (avoid collecting extraneous data)



"We don't have the best IT platform that you've ever seen, it's heavily designed for the control environment, as opposed to an operational dealer network, it's not user friendly... they can't actually tell you how to make the business easier, and it's extremely complex and tough and hard."

*After Sales Director
MAN Truck & Bus UK Ltd*

PART FOUR / 4.5

ANALYSIS AND INTERPRETATION OF CUSTOMERS' NEEDS

"Just as part of my vision, each of these sales people would have their own laptop and they'd have a customer database...sales history, broken down by product group. You could then give them the right brief to create a focus, and then they go and do their visit and they type in after the visit, 'I went to see Joe Bloggs today, he's not buying buses because... (Currently) all these people go and see customers but we don't capture any data. So what I'm saying is there's no accountability. Unless you can understand why people aren't buying, then you're foxed really."

*Head of UK parts
MAN Truck & Bus UK Ltd*

Research demonstrates that accurate and relevant analysis and interpretation of the customers' needs and preferences supports the transition towards a servitized company. Organisations moving along a servitization path tend to emphasize and sponsor their recent innovations in terms of the PS offering independently of their customers. In other words they often forget that there are many customers who are less interested in solutions with a high level of servitization. Moreover, too often organisations invest significant amounts of money in launching a "new" product with a limited understanding of whether there is room or demand for the new product on the market because of competition. As a consequence they are forced to re-evaluate their strategy and determine if there is room for another player.

Understanding customers' requirements and setting up coherent product/service marketing and communication approaches and distribution channels positively supports the servitization process. Therefore, before starting to integrate a service component strategically with your product offering you should conduct a deep analysis and interpretation of the needs of your customers. Specifically, you should ask yourself and the people in your organisation the following questions:

ASK YOURSELF:

How can we recognize the diversity of our customers' needs?

Each customer is characterized by different needs depending on their background, their business, their customers, the size of their organisation etc. Customers are also characterized by different degrees of evolution. Some customers tend to request the same offering over time, whilst others are keen on being offered the "the next big thing". Moreover, the desired outcome each customer expects can also differ: some customers are interested in the total cost of ownership, others in potential cost reductions, and others still are interested in technical support arrangements. Sometimes organisations forget about these diversities and propose the same solution for all, regardless of their customers' needs.

ASK YOURSELF:

How well do we know our customers' processes?

Knowledge of your customers' processes may help you understand shortcomings in their customer's activities. This, in turn, can help you design the most appropriate solution for them, or to identify which process you should improve in your existing offering in order to provide the best impact on your customer's performance.

"I think it's an evolving business and he's got to be fairly savvy these days to go and filter customers and it's not a just a case of going out and offering a good price and a discount, you know..."

*(Marketing Manager
MAN Truck & Bus UK Ltd*



ASK YOURSELF:**How well do we know our installed base (do we have sufficient information)?**

Information about the installed base (customers' geographical location, the age of products in use, the types of products delivered in the past, how these products have been used etc.) can help your organisation design its offering, define the best strategy and then market and deliver it.

ASK YOURSELF:**How well do we know our customers' customers?**

Knowledge about your customers' customers may help you understand the real needs of your customer and be faster and more precise in providing the solution your customer needs to improve their business performance.

ASK YOURSELF:**How do we capture our customer needs (formally and informally)?**

Customers' needs can be captured using both formal and informal market analysis. Both allow companies to better understand the explicit requirements (formal) of their customers, and their implicit and undeclared desires and needs (informal).

ASK YOURSELF:**How affordable is our organisation's integrated offering to our customers?**

Sometimes integrated solutions are not purchased because they are unaffordable. This may be because of the price of the offering, unfamiliarity with the concept of integrated offerings, or simply because customers are unaware of options. Analysing the different factors that assist or impede the customer from buying a specific PS offering can help you in better identifying your marketing leverage such as pricing, channel identification and communication.

SUGGESTIONS AND RIGHT POINTERS:**What can you do to facilitate analysis and interpretation of your customers?**

- Identify long term customers and create specific deals with them
- Determine if there is a real need for your PS idea
- Map your customer needs in relation to your current and future PS offering, through formal and informal market analyses (including surveys, direct interviews, ethnographic research, workshops, focus group, brain storming, etc.)
- Provide a multi-dimensional analysis of your customer on the basis of their main features (size, geographic distribution, installed base, age of product, type of business, profitability, duration of your relationship)
- Identify what outcome is expected by each customer regarding Total Cost of Ownership (TCO), one-off cost, technical support etc.)
- Analyse the impact of offered solutions (results) to decide whether to maintain or abandon a specific offering

"What the customer wants is reduced cost of ownership through life and availability"

*Human Resource Manager
ServJet*



PART FOUR / 4.6

PERFORMANCE MEASUREMENT SYSTEMS

“We decided that the only way that we could raise the bar and raise the standards, was by taking certain KPIs and insisting on a minimum benchmark level in our dealerships... And when we introduced it, it was a bit difficult to get going with it, because we were asking the dealerships to really raise their game. But to get to a standard that was industry leading, shall we say, we achieved that in about two years.”

*Head of UK service network
MAN Truck & Bus UK Ltd.*

The alignment of the performance measurement and reward system with the product service strategy supports the transition towards a servitized company. Through the performance management systems an organisation can influence the emphasis that employees and network partners put on aspects considered important for a successful delivery of the integrated PS offering. Accurate and timely performance measurement also allows identification of inconsistencies and other problems in the delivery of the offering. It may also help the organisation identify areas for improvement.

To understand the extent to which your performance measurement system can support the implementation of the servitization strategy you should ask yourself the following questions:

ASK YOURSELF:

How obvious are the effects of our performance measures? In other words, how do our performance measures actually stimulate the right actions from those to whom they apply?

Changing your strategy and your organisation to make the transition from being a “best product” provider to being a “best solution” provider requires an enlargement of perspective in your performance measurement system. The system must be able to capture new dimensions in your organisation. This includes the ability of your offering to satisfy both tangible and intangible needs at different stages of product use and the ability of your organisation to share with and co-ordinate an increasing number of internal and external collaborators at different levels (from both a strategic point of view as well as from an operational one). In other words, your performance measurement system must be made to stimulate the right actions and efforts in line with your new integrated product service offering and based on the principle of “selling better rather than just of selling more”.

“Sales executives...we do incentivize them quite heavily...because they can see money coming in, that tends to focus their minds and sharpen up the way they go to market with the customers.”

*Regional Sales Director
MAN Truck & Bus UK Ltd.*



ASK YOURSELF:**How adequate is the frequency of control for the service delivered?**

Even if the performance measurement system is able to capture all the different perspectives required, when you introduce integrated solutions you may experience difficulties if the feedback you receive is acknowledged too late. This can happen if you control your activities too infrequently or if it takes too long to receive, process and evaluate the feedback.

ASK YOURSELF:**Is performance measured from the bottom up?**

Because the integrated product service solution is increasingly being delivered by a network of organisations it is necessary to evaluate what and how you have performed towards your partners and subsidiaries, to better understand how to improve horizontal co-ordination.

ASK YOURSELF:**How to collect feedback from performance reviews (and to review, refresh and update accordingly)?**

A comprehensive, accurate and complete performance measurement system is not a one-off measure. To keep it effective, it is necessary continuously collect feedback about use, perceived effectiveness and fairness and also to introduce adjustments and updates when and where deemed necessary.

SUGGESTIONS AND RIGHT POINTERS:**What can you do to develop a proper performance measurement system?**

- Develop a measure for the quality of the relationship
- Define the Key Performance Indicators (KPIs) that assess the success of the PS offering
- Together with your network partners provide an analysis of performance measurement system capabilities and, with them, identify what needs improving and how
- Introduce a process and a system that enables a bottom-up evaluation
- Introduce a process and a system that enables continuous feedback in real time
- Introduce an integrated reporting system
- Introduce an incentive system focused on the service component of the offering



"We have more metrics requirements than you could possibly imagine: from commercial drivers such as turnover, P&L accountability, margin, etc. We then have quality drivers which are failure rates and we have very strict targets on what is acceptable and what isn't, right the way through to percentages of market share and meeting customer satisfaction. So we've got drivers and performance metrics across every single aspect."

*Commercial Director
ABC Remanufacturing Services*

PART FOUR / 4.7 DEVELOPING ADDITIONAL CAPABILITIES

“I would just say competencies are skill sets in terms of individuals. They are competencies in terms of a facility, the ability to do something physically and also the familiarity with the sector that you are working in... you cannot just assume that because you do it on one product you can do it on another... We’ve acquired specialist skill sets and areas of expertise in other businesses and other sectors. Through acquisition we have gone into new sectors... and at the same time we have developed investment in terms of capital and facilities.”

*Commercial Director
ABC Remanufacturing Services*

Research demonstrates that being able to develop additional capabilities for delivering the offering supports the transition towards servitization. In particular in order to offer integrated PS offerings, an organisation should develop new capabilities such as operational services, business consultancy and finance. Increased competence in activities such as product maintenance, spare parts supply and training is, basically, necessary in order to improve product availability. Moreover, recent demand for integrated solutions has encouraged the development of capabilities for providing business consultancy and financial services. Obviously the effort a company should invest in achieving a specific capability depends on the actual degree of development of that capability within the organisation and on what is actually requested by customers.

To understand which capabilities you should improve / introduce / buy externally to support the customer’s needs you should ask yourself the following question:

“We are pulling the various skill owners together that define these capabilities and define the capability frameworks and say where are the commonalities, where are the common elements that exist across all the sectors and that’s beginning to create a core skill frame that is generic.”

*Human Resource Manager
ServJet*



ASK YOURSELF:

What services do our customers lack in our offering? In other words, what else do they want?

Your organisation has to understand how to improve its current PS offering based on the specific requests of your customers. Moreover, you should be also able to identify your future PS offering from your customers' unstated needs. In doing so your organisation will be able to anticipate the market and your competitors' future directions and will have time to develop the required competencies.

SUGGESTIONS AND RIGHT POINTERS:

What can you do to develop the right capabilities?

- Develop deep analysis of customer needs (stated and unstated) in order to identify the capabilities you need
- Assess the capabilities on the market and identify gaps and unique capabilities your organisation already has or could develop
- Compare your current capabilities with what you need to support the future customer requirement (learn by the experiences of other companies including those in other sectors)
- Provide a feasibility analysis to help identify the competencies you need



"Guys who are strong from an engineering background with R&M are not... I think finance is probably our weakest area, and that's something that most of the guys wouldn't have been exposed to in any way, shape or form."

*Regional Sales Director
MAN Truck & Bus UK Ltd.*

PART FOUR / 4.8

CEO AND TOP MANAGEMENT COMMITMENT

“Des would most definitely be. He is a very central pillar in this organisation, whether that means leadership... he is the leader and people see him as the leader.”

*After Sales Director
MAN Truck & Bus UK Ltd*

“It would be impossible to say one person (managed the transition)... (The services business) evolved ten years ago with various group presidents at that time. I don't think there was one project manager. It was a team led approach from an existing system... So it's a team effort... at a director's level. That is at a director's level, absolutely.”

*Commercial Director
ABC Remanufacturing Services*

Research demonstrates that CEO/ top management commitment plays a crucial role in fostering the transition towards a servitized company. The charisma and strategic vision of CEOs is recognized as an important facilitator in the implementation of integrated PS strategies. Their leadership can influence the commitment of the top management and people throughout the organisation. Therefore, before starting to strategically integrate a service component to your product offering you should analyse the existing commitment of your senior management by asking yourself (and the people in your organisation) the following questions:

ASK YOURSELF:

How well informed is our senior management about the servitized offering?

Shifting from a product-based to a service-based organisation, in a context that is characterized by uncertainty and inaccurate and incomplete information, may cause managers to resist the implementation of the required changes. This attitude is often the result of people feeling pulled out of their comfort zone and obliged to operate in an new and unknown reality.

ASK YOURSELF:

How well does our senior management team understand the implications of offering integrated services (resource requirements, profit generation (e.g. profit not coming from a large sale, but rather in smaller contribution consistently spread out over time)?

If top managers are not fully aware that implementing an integrated product service strategy will require substantial resources (in terms of time and money) they may act in a way that hinders the PS strategy. As a result the implementation may not bring the expected results and this may cause crucial sponsors of the project to disengage.



“I think, nine years ago, we as a company, and a lot of managers were asked for their input and the staff were asked for their input. And there's a lot of teamwork although it is subconscious teamwork.”

*Retail Sales Operations Manager
MAN Truck & Bus UK Ltd.*

ASK YOURSELF:

How does the transition from a product offering to an integrated offering lead to a shift in responsibility and control in the management team (or elsewhere in the hierarchy)? How much do all the employees exposed to that shift actually agree with it (can resistance be expected from individuals or departments that perceive a loss of control / resources)?

Servitization often implies a re-distribution of resources among existing departments. During the servitization process the internal role and power can shift from one department to another. This can influence the behaviour of people (including top managers) who used to have a dominant role in the decision-making process, and whose power has been reduced due to the implementation of the new strategy. If they oppose the intended changes, they may impede the application and the diffusion of the PS strategy to the market. This opposition is usually greater when companies have historically been successful.

SUGGESTIONS AND RIGHT POINTERS:

What can you do to enhance the commitment of your top management in introducing a PS strategy?

- Be explicit in explaining their responsibility for enhancing the PS culture
- Introduce incentives in their reward system specifically linked to service provision performance
- Invest in educational and training programmes specifically related to service and customer management and interaction
- Clearly explain what the impact is of the PS offering on those who have to sell/deliver it
- Train people to think in terms of integrated offerings and make sure that they understand the impact that the offering has on the way products and services are sold and delivered

"We started selling the shelving system... with the absolutely clear vision of wanting to be the world's definitive shelving system, of wanting to make this product the world's definitive shelving system. That was clearly what we were doing. So we were focusing utterly single-mindedly on that."

Managing Director
Vitsœ



FieldBook

PART FIVE / 5.1

CASE STUDY: MAN TRUCK & BUS UK LTD

In the sections of part five we present four case studies. For each case study we try to identify the main features of the company's servitization which are also finalized in a "lessons learnt" section.

MAN Truck & Bus UK Ltd. is a wholly-owned subsidiary of one of the leading manufacturers of commercial vehicles in Europe. MAN Truck & Bus UK Ltd. was established in the early 1990s. The company has a 13% market share and a GBP 650 million turnover. The company is responsible for selling and servicing trucks, coaches, buses and special vehicles in Great Britain and Northern Ireland while manufacturing activities are performed outside the UK (Germany, other European countries, India).

During the last 15-20 years, MAN Truck & Bus UK Ltd. has developed significantly both in terms of size and offering. At the beginning of the 1990s the company was very small. It had less than 100 employees, its market share was about 2% and the number of trucks sold was lower than 1,000 units. At that time the company was a mere importer of commercial vehicles in the UK and its offering was very simple and based solely on the sale of trucks.

Conversely, today the company's strategy is centred on offering the customer high-quality products and service packages helping them manage the whole life of a truck. In other words, MAN Truck & Bus UK Ltd.'s objective is not just selling trucks but supporting the customer in its operations (e.g. reducing fuel consumption, increasing efficiency, reducing breakdowns, enhancing truck utilization etc.) through the range of after-sales services MAN Truck & Bus UK Ltd. provides. In its relations with its customers, MAN Truck & Bus UK Ltd. would like to be seen as an essential part of the customer's business with the customer coming to them for help to make their business better in terms of profitability or in terms of customer service. In their view it is ultimately not about

the truck, or about their ability to change the oil on a truck for X pounds, but about helping the customer do what is required. MAN Truck & Bus UK Ltd.'s route to the market was described by the CEO as follows:

"We've moved into the space of transport solution provider... We are a service organisation that sells trucks... we would like to become the lowest cost transport operation that money can buy. And that doesn't necessarily mean that the capital price of your truck is low"

The company's offering therefore consists of a bundle of products and services. In terms of products, it sells light, medium, heavy trucks, buses, coaches and specialist products. As for services, it provides a wide portfolio of alternatives including spare parts, 3-year comprehensive warranties, additional warranties, R&M (repair and maintenance) packages (including all routine servicing, 6-week preventive maintenance inspections, MOT testing, mobile 24 hour assistance, out-of-hours servicing, tyres, fleet management), rental, finance packages and fleet management service.

To support this more service-oriented business strategy, during the early 2000s MAN Truck & Bus UK Ltd. decided to change its sales approach significantly. Specifically, it introduced an initiative called MAN DIRECT aimed at shifting the sales responsibility of trucks and services from the dealers to MAN HQ in Swindon. As a result, the dealer network is currently in charge of the provision of services only, while MAN Truck & Bus UK Ltd.'s sales force directly deals with customers for the sale of trucks and services.

"We don't know the value of our customer. We've got thousands of customers in this company, I think we need to grade customers, so we know the real value of the customers to us..."

After Sales Director
MAN Truck & Bus UK Ltd



The evolution of the corporate culture

MAN Truck & Bus UK Ltd. is a company with a long heritage in technology. Traditionally therefore, the company was renowned for its engineering excellence. MAN Truck & Bus UK Ltd. trucks were sold on the basis of reliability, durability and performance (e.g. low fuel consumption). At present however, the market automatically assumes high levels of mechanical reliability and performance so doing business is no longer about manufacturing/product excellence but rather it is about the service proposition. A lot of effort was dedicated to instilling a customer-driven mind-set – in other words “the customer was the number one priority” (MAN Truck & Bus UK Ltd. CEO). It is said that it took about ten years to change the corporate culture.

During that period a number of senior managers who had moulded themselves according to the old image left the business and were replaced by individuals who were recruited in the new image, which is one that is co-operative, team-based, and customer focused. The CEO clearly described this process as:

“You can’t just change people ,you need to help people see the need for change, but getting people to see the necessary change is arguably the most difficult task and should not be underestimated”

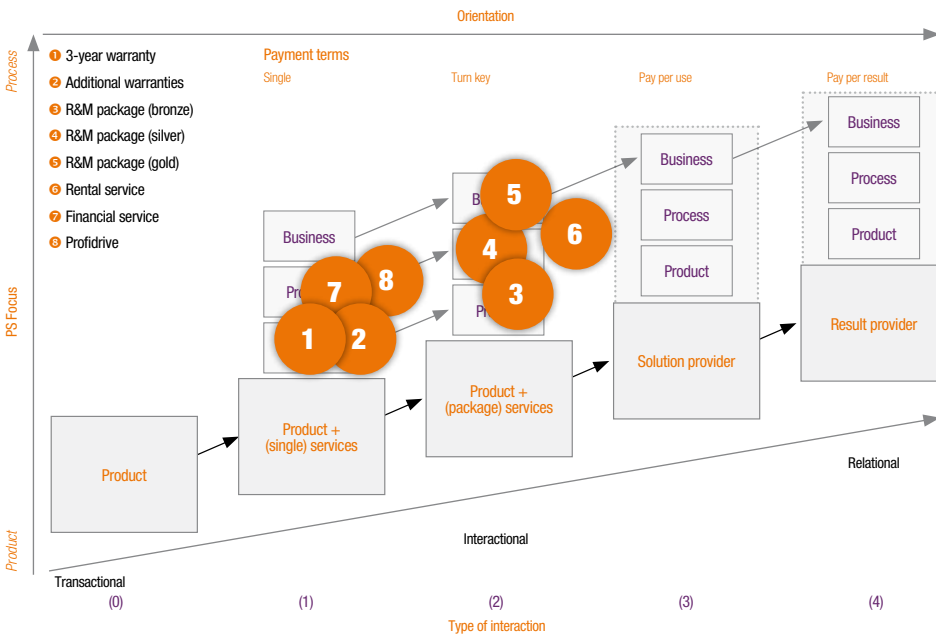


Figure 5.1
MAN Truck & Bus UK Ltd. PS offering



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PART FIVE / 5.1

CASE STUDY: MAN TRUCK & BUS UK LTD

Although it is said that the situation has improved significantly over the last years, certain remnants of the traditional product/manufacturing mind-set are holding back MAN Truck & Bus UK Ltd.'s ability to offer a fully integrated offering. People in certain departments still seem to lack the skills and mind-set to embrace a broader vision when it comes to the integration of products and services. This situation is particularly evident in the after-sales side of the company. People have been selling spare parts (and just spare parts) rather than selling a complete range of after sales services and it seems that this is an area that has been neglected by management. As a result there appear to be difficulties in selling workshop hours.

Communicating the strategy

A major obstacle in MAN Truck & Bus UK Ltd.'s effort to provide a more integrated product service offering (taking a total cost of ownership perspective) is that the very customers to whom they sell are often not able to fully understand or appreciate the offer that is made to them. Many customers appear unable to get beyond arguments over the list price of the truck during the sales process. What MAN Truck & Bus UK Ltd. is now trying to do is to move the customer forward into another way of acquiring and purchasing vehicles though for too many this is still completely alien to their way of thinking.

To support this shift and help customers better understand the value of long-term agreements, MAN Truck & Bus UK Ltd. has invested significant resources in training the sales force. Salesmen need to be able to understand customers' financial situations and to suggest the optimal solution for their processes. In order to do so, their role has to change from truck seller to business consultants.

"We're trying to change the behaviour particularly of our sales execs, from selling metal to selling the solution."

*HR Director
MAN Truck & Bus UK Ltd.*

Analysis and interpretation of customer needs

At customer level, management of information is particularly critical. In the After-sales department there are a few different databases that support similar activities yet they each register information in different ways. This significantly limits the chance of creating a complete picture of each customer in terms of trucks purchased, R&M packages or other services acquired and parts bought. As a consequence it is not possible to fully understand the customers' buying behaviour and to shape selling approaches or offerings tailored to customers' needs.

At the moment, there is a CRM system for sales people but nothing similar is in place for After-sales. The sales people do actually have a tool enabling them to record customer data and to perform quick quotations both for trucks and service/finance packages but this does not fully support the selling of solutions.

Moreover, there are no routines in place to capture customer information except for complaints about products or services. The company is therefore highly dependent on the information captured at dealer level. However, as this data is captured in an unstructured manner, it is often incomplete and does not properly support marketing initiatives.



Performance measurement and reward systems

In the experience of MAN Truck & Bus UK Ltd, the two most significant drivers of PS integration have been the company's performance measurement system and the related incentive programmes. In particular, the two different sets of measures and incentives put in place for the sales force (Star Programme) and for the dealers (UTP and Service Provider of the Year – SpoTy) represent key determinants in supporting the shift towards a more servitized business.

The Star Performance incentive programme has been running for the last 12 years. It awards sales people points for selling trucks, R&M packages, telematics and finance deals although, in fact, the sale of services exerts more weight in the global incentive scheme. This programme has improved R&M penetration and is consistent with the idea of emphasizing TCO (Total Cost of Ownership) more than the truck itself.

The Up Time Principle programme was established in 2005 following the first Heavy Trucks Study, which showed a low network commitment towards the level of service. Specific KPIs (Key Performance Indicators) are used to steer dealer performance in specific areas (such as the MOT pass rate, the dealers' performance in recovering a stranded truck in their area within a predefined time – the Mobile24 service –, or the amount of training they allow their employees to receive from MAN Truck & Bus UK Ltd.). Thanks to the introduction of UTP and SpoTy, MAN Truck & Bus UK Ltd. is today one of the leading companies on the market when it comes to the level of service offered.

Capabilities

MAN Truck & Bus UK Ltd. is developing new skills in order to offer services together with its products. Specifically, the following are emerging as the most relevant:

- Finance capabilities: this need has been partly satisfied through the support of MAN Truck & Bus UK Ltd. Finance. What is still missing, however, is the ability of Sales Executive to sell the finance package. Doing so requires not only a clear knowledge of the finance package but also, and most importantly, the ability of the sales force to understand the customers' financials and to identify which package is best suited to their needs.
- Consultancy capabilities: in order to push the sales of service packages, sales executive need to become "transport consultants". They need to understand the customer's business, its operations and how to sell MAN Truck & Bus UK Ltd.'s offering on the basis of the total cost of ownership. This also includes having financial capabilities (as mentioned above) and understanding the customer's balance sheet.
- After-sales capabilities (for sales representatives): the company needs Parts Sales representatives who are better able to understand their customers' parts buying behaviour and who have a more proactive approach when it comes to selling parts as well as services.
- After-sales capabilities (for dealers): these should be able to fully address the customers' service requirements. Such capabilities are not yet fully developed across the network and customers are aware of regional differences.
- IFleet management capabilities: this is seen as a crucial area that requires development as it is a key area where differentiation from the competition can be achieved.



"...they don't want to be involved in talking about maintenance adjustment brought to a customer, just selling the hardware. Just do a deal and walk away."

Marketing Manager
MAN Truck & Bus UK Ltd

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CASE STUDY: MAN TRUCK & BUS UK LTD

Information systems

Inadequate information systems are frequently mentioned when it comes to hindrances or limitations affecting people's ability to get the most out of the market. At present MAN Truck & Bus UK Ltd. has some five different information databases in use. This in itself is considered problematic as it is unlikely that five separate databases will be correct at all times. The problem seems most acute on the After Sales side of the company where it is felt that MAN Truck & Bus UK Ltd. is not making the best use of marketing.

"We're not particularly good at storing data and updating data, so to be able to say... when a vehicle's MOT is going to expire, do we know when that has been extended? Not all the time, there's a gap there."

*Business Development
MAN Truck & Bus UK Ltd.*

As well as with After Sales, information systems are generally considered to be an area that is holding back the company when it comes to better integration of products and services.

"We do get a lot of things wrong. Our problem is that we come up with a lot of good ideas and we don't see them through because we are beholden to the systems."

*Sales Manager
MAN Truck & Bus UK Ltd.*

It is felt that the data available doesn't help people to really sell the whole solution.

Leadership

There is a general consensus that the work of the current CEO has been the main facilitator for the organisation's changes towards greater integration of the product and the related services. Described as something of a maverick in the industry, he is an individual who does not shy away from doing things differently. This particular journey was actually started in 1993/1994 when he joined the company as sales and marketing director. Conversely, this charismatic leadership is also identified as one of the organisation's potential weaknesses as no apparent successor has yet been identified in the company.

Lessons learnt

The MAN Truck & Bus UK Ltd. case study provides a rich picture of the challenges companies face when moving towards more a servitized strategy. One of the main factors emerging from the study has to be the importance of changing the corporate culture. MAN Truck & Bus UK Ltd.'s engineering heritage has actually been a major obstacle in the servitization journey. It is very clear that to change the mind-set of the people in the organisation requires huge efforts and a very long time. The case also highlights that investment in training and in establishing performance measurement systems that are consistent with the company's strategy can significantly assist in this change.

Embarking on a servitization journey also requires companies to clearly understand what kind of competencies are crucial and to identify how these can be developed or acquired. The MAN Truck & Bus UK Ltd. experience highlights how relevant control over the sales force is in supporting a major shift in the approach to the market and in achieving a consistent communication of the new PS offering to customers.



The MAN Truck & Bus UK Ltd. case also illustrates the importance of managing information related to the customer base. This is seen as a major factor affecting the company's ability to actually sell and market its PS offerings. The absence of a proper routine for collecting customer information as well as the lack of IT support in storing and analysing this data both represent serious obstacles to servitization.

Last, but not least, the MAN Truck & Bus UK Ltd. route to the market and its implementation has been significantly driven by the charismatic leadership of its CEO. And while this has generated a strong commitment to the strategy at senior management level, supporting the company's significant changes over the last ten years, it has also generated a high dependency on the CEO himself. It is therefore worth noting that this could represent a possible risk for implementing the PS strategy in the future.

Figure 5.2
The main factors affecting the MAN Truck & Bus UK Ltd. servitization



"I'd say it's quite a wide range in skills but at the end of the day the guy has to be a salesman, he's got to have the ability to think on his feet and be credible with the customer, and he's got to be knowledgeable with the customer."

Marketing Manager
MAN Truck & Bus UK Ltd.



PART FIVE / 5.2

CASE STUDY: ABC REMANUFACTURING SERVICES

Company ABC is one of the world's largest producers of construction and mining equipment and has been remanufacturing its products since the 1970s. Its global remanufacturing business is currently one of the largest in the world in terms of volume and it has become one of the company's fastest growing with annual revenue reputedly increasing at 20% a year, and accounting for 15% of ABC's revenue. Remanufacturing is also considered to have the highest growth and earnings potential of any of the company's businesses in the next five years as the company is able to profit again and again from the same goods.

The offering of "remanufacturing services" ranges from the production of an individual, remanufactured small component through to a complete end-to-end solution requiring complex logistics and reverse logistics, a variety of routes to the different markets, and expertise in various local legislation areas.

'ABC Remanufacturing Services' was originally part of the Company ABC as an internal unit providing product support for machines within the organisation. The remanufacturing function was considered a side line and something the company needed to do before management realized it actually represented a hidden business opportunity. The internal unit then became involved with other industries and OEMs outside its main industry, and evolved into a different business which then became a separate profit centre as well as a separate organisation with a separate strategy. Today it operates as a separate division within the company and is a

substantial business in its own right with significant global turnover and significant resources.

This transformation from an internal support services function into a separate cost unit and finally into a separate company has been triggered by the realization of the economic benefits of offering a lower cost competitive solution supporting the company's own products. Apart from the economic benefit, environmental regulations have also been a critical driver for servitization.

"Originally it was provided as a lower cost competitive solution supporting [Company ABC] products. If you had a product that needed repair or replacement parts you had two options: an original new component and a remanufactured component at a percentage of the cost. So that's an economic driver! Where we are today in terms of both [our own company], and third party suppliers, is providing an economic solution so it's providing cost advantage but it's also providing an environmental solution to regulatory and other drivers. So it's not any longer just a financial incentive!"

Commercial Director
ABC Remanufacturing Services

Sustainability is at the core of remanufacturing; and remanufacturing is at the core of sustainable manufacturing. Regulatory requirements are driving recycling, and remanufacture is, by definition, part of that process. Sustainability is addressed by meeting recyclability standards in terms of efficiency and reduced wastage of raw materials such as in mineral extraction, for example. Remanufacture eliminates the need to extract more raw materials or to waste energy in manufacturing new products. Going 'green' has been an inherent element in the development of the remanufacturing services business.

Technology has been an enabler at the very forefront of development of the remanufacturing services business.

"New processes and new technologies are coming along which didn't exist ten years ago, so in terms of the ability to actually do things that we couldn't before, that's always changing and that's right at the forefront of it. Recent examples are cold plasma spray, for example... So technology is a differentiator and it's right at the forefront."

Commercial Director
ABC Remanufacturing Services



Quality has also been a key factor when it comes to differentiation in remanufacture. Only when it produces the right quality can the company offer the right warranty, and only with the right warranty can it differentiate and sell its offering with confidence and with success. Quality is about everything the company does, not just the remanufacturing of the component.

The evolution of the corporate culture and organisation

Continuing to expand into additional products, territories, enlarging customer bases, as well as becoming “smarter” in terms of new technologies and new processes and capitalizing on regulatory requirements are things that have driven ABC to rethink the concept of remanufacturing, which is still perceived as a service by internal customers and as a globally-marketed third party solution by other customers.

“The ‘evolution’ has come as a driver to evolve the business and to drive the scope of ABC’s activities...the natural transition then was to look at how to get greater revenue from the current footprint? And the decision was taken to take our offering global and outside [the company].”

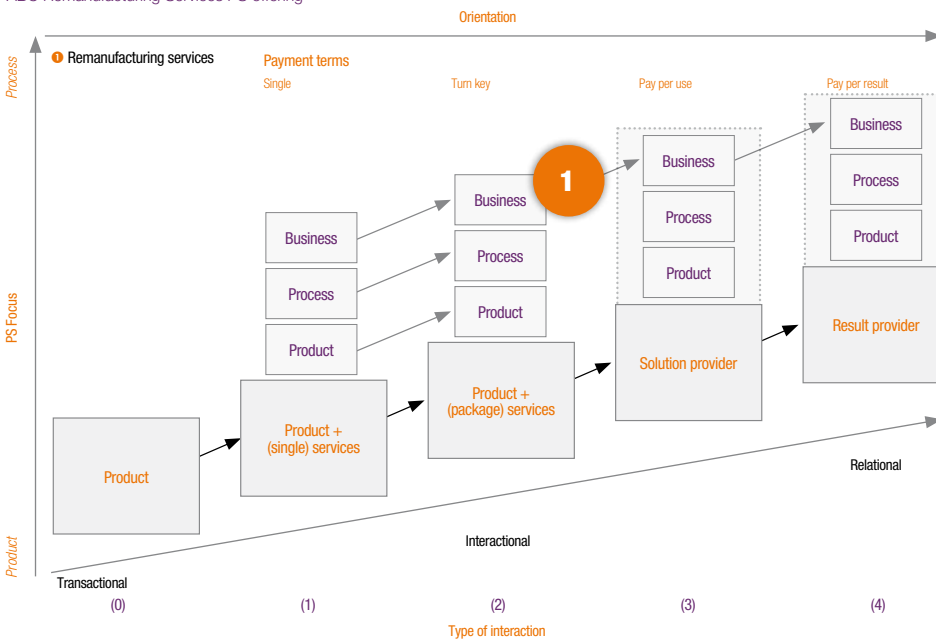
*Commercial Director
ABC Remanufacturing Services*

On the basis of these premises ABC Remanufacturing Services considers itself to be and describes itself as “almost 100% servitized”, in the words of one of their top managers. This is currently made possible by the lack of significant competition.

“In terms of third party competitors there is not actually a major player who is participating, cross-sector, at the same level of detail that we are. We are cross-industry, cross-sector...a global footprint to a global industry.”

*(Commercial Director
ABC Remanufacturing Services*

Figure 5.3
ABC Remanufacturing Services PS offering



“New processes and new technologies are coming along which didn’t exist ten years ago, so technology is a differentiator and it’s right at the forefront.”

*Commercial Director
ABC Remanufacturing Services*



FieldBook

PART FIVE / 5.2

CASE STUDY: ABC REMANUFACTURING SERVICES

Company vision and strategy

The company has effectively taken the business opportunity on board and developed the product offering and the service into a competitive service offering. This has allowed it to offer an alternative to new components, and to prevent it displacing an ABC customer.

The company does not differentiate between products and services and defines its offering as “fully integrated remanufacturing solutions”. There is no actual differentiation between the ‘product’ and the ‘service’ because remanufacturing only works if the company has the logistics and the administrative support for its production. In this sense, the PS offering can be considered to be fully integrated, certainly when it comes to the large corporate solutions segment. Remanufacturing services are not, however, considered to be something that attracts new customers, but as a way of making sure that the company has an equivalent and competitive PS offering to stop them going to a competitor.

In this context ABC had a very clear strategy for supporting its own products. So when it chose to approach third party companies and set up its remanufacturing services business, there was a clear strategy in terms of product fit, synergy in operation, synergy in technology, capability and the type of company that would be approached.

Interpretation of customer needs

The PS offering ABC provides is highly customizable and the company is open and flexible to different types of customers, and to their varied business needs. The customer is given the choice between a new component with a new warranty and a remanufactured product with a reduced warranty but at a lower cost. The challenge this choice represents, however, is outweighed by the advantage of providing customers with a cheaper alternative which inhibits them from looking elsewhere for a cheaper alternative and this helps retain them as long-term customers.

“It depends on who the customer is. If it’s a quarry owner who has a piece of [Company ABC] equipment and a component fails, our offering is to have an equivalent component at a reduced price from a new type. So, in other words if the driveshaft goes on a piece of machinery, the customer can have two options: he can have a new driveshaft or he can have a remanufactured driveshaft at a percentage of the cost. The offering there is straightforward. This is the part. It’s on a reduced warranty ...” in that case ... you’re competing against your own new component. So it’s a remanufactured warranty versus a new warranty; remanufactured price versus a new price.”

*Commercial Director
ABC Remanufacturing Services*

In addition the organisation has had to cope with the market perception of what remanufacturing is. In the past it was seen as a cheaper way of providing a similar component. What the company actually offers, however, is totally different – it is the remanufacture of a component back to its original state. In other words, the component is not repaired, it is not a make-do component, or a second rate component; it is a component fully remanufactured to its original tolerances, original warranty and original state ‘in every meaning of the word’.

“The issue has been the market perception of what remanufacture is and one of the key drivers we’ve concentrated on is the difference between repaired, rebuilt and remanufactured. Repaired and rebuilt mean an old component made good so that it will work again, remanufactured is a brand new product that’s back to its original state and it’s the market perception and the market value around that.”

*Commercial Director
ABC Remanufacturing Services*

“We’ve acquired specialist skill sets and areas of expertise in other businesses and other sectors... and at the same time we have developed investment in terms of capital and facilities.”

*Commercial Director
ABC Remanufacturing Services*



Capabilities and co-ordination of the service network partners

During the transformation, in order to deliver an integrated PS offering to outside customers, the company has acquired specialist skill sets and areas of expertise in other businesses and other sectors. Through acquisition it has moved into new sectors such as automotive and rail. At the same time, internally, ABC Remanufacturing Services has grown its investment both in terms of capital and of facilities. During that process the company realized that remanufacture is not only dependent on the ability to make the product, but also on being able to provide the complete package where some of the hardest elements are actually the administration and the processes behind it. Transforming from an internal product support unit to a remanufacturing services business has been successful as the company has found a synergy in terms of the industry, the component and the technical capability and has succeeded in aligning those elements with their existing experience and expertise.

"It's the one that fits right in the middle of a system that works... The whole element of repatriation of the component, how you handle it, how you get it through from a customer in a machine, on a jobsite, in a geographical territory right the way through a dealership, inward shipping, logistics, inspection to a specific facility specialising in a certain area that's quite a cumbersome process. And to be fair, even if a lot of companies have the right technical expertise they wouldn't have the global capability to do this..."

*Commercial Director
ABC Remanufacturing Services*

One way this has been achieved is through implementing its strategy through methodical planning. ABC applied regimented gateway reviews with regimented disciplines drawn from commercial, marketing, planning, operational and engineering practice. The remanufacturing services business utilized Six Sigma, and every individual project features a Six Sigma scope with ground upward analysis, clear timelines and gateways and allocation of resources.

"Nothing is done by trial and error...everything is very analytical, it's planned, the process is there...the evolution has gone from A to C, but it's gone through a very planned gateway including B. It hasn't just got there by any mistake."

*Commercial Director
ABC Remanufacturing Services*

The company has also developed a number of partnerships with "very willing partners" establishing trust-based relationships. Other relationships are purely commercial where the driver is just financial and the company is unwilling to invest more than the minimal time required. The nature of the partnership is therefore dependant on the customer organisation, the extent of the remanufacturing process provided, and the ability and structure of the organisation.

Integrated performance measurement system

The management process is facilitated by metrics. It has developed a comprehensive suite of metrics to ensure the successful delivery of its offering, going beyond simply measuring profit and loss.

Top management commitment

The transformation towards a remanufacturing services business evolved over ten years, with various group presidents being incumbent during that time. There was not one single project manager, but rather the approach was team-led, following an existing system from the parent company. At director level the effort has also been team-led.



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CASE STUDY: ABC REMANUFACTURING SERVICES

Figure 5.4
The main factors affecting the ABC Remanufacturing Services servitization



Lessons learnt

Several servitization lessons can be drawn from the ABC Remanufacturing Services transformation. The transformation took place over a ten year period during which the remanufacturing 'side line' proved to be a hidden business opportunity and evolved into a substantial business in its own right with significant global turnover and backed by significant resources. Market opportunities supported by technology and environmental issues have driven the company to change its business concept. Addressing the opportunity the company has developed a clear strategy, methodological planning and top management commitment to support this evolution. ABC Remanufacturing Services has, however, kept a wider range of service solutions in its portfolio to satisfy the varying needs of its customers with whom the company has established a relationship based on trust and partnership. The offering is delivered through an integrated service delivery system whereby the remanufacture solution goes beyond the making of the technical product to the entire remanufacturing capability including support services, infrastructure and management of the core process. Indeed, the company is open and flexible to different types of customers who are offered the choice to select the best solution. This has forced ABC Remanufacturing Services to implement and develop a co-ordination system within its complex organisation and with its other partners involved in supplying new service solutions. It has therefore introduced a number of partnerships with "very willing partners" and also introduced a comprehensive performance measurement system that can assess and capture the different dimensions of PSS.



PART FIVE / 5.3

CASE STUDY: VITSOE

Founded in Germany in the 1950s, Vitsø is a small design-based company selling high quality furniture around the world directly to customers via the internet, providing its customers with better living, “with less, that lasts longer.” The company and production have been operating in London since 1995 after the company had experienced financial hardship in Germany and had to transform itself into a successful PS business.

Today Vitsø employs about 40 people including planners who work with customers, production workers and installers. It sells mainly to private customers but also caters for the business-to-business market.

Vitsø’s product ranges comprise a shelving system and a chair programme, both designed by a famous industrial German designer. The main product is a totally configurable system, which has been continuously developed since it was first launched in the early 1960s. All new components are compatible with the original system. Most of the product is made out of recyclable aluminium, steel and wood, and all joints are mechanical, i.e. not bonded or welded, allowing for easy repair and dismantling. The products enjoy an iconic status, retain their value well and are even prized on the second hand market.

The company also offers customers help with planning, installing, dismantling, re-installing, repairing and refurbishing their products. These services are provided personally and professionally with an emphasis on outstanding quality in all customer interactions. This further supports the lifelong company-customer relationship. The challenge for the company is the market perception of the price of the PS offering as customers tend to believe they are paying too

much for shelving whereas in fact they are actually also receiving a service. Competitors, on the other hand, undermine Vitsø’s offering, often comparing it ‘like for like’ on a product only basis.

Service strategy

Although the company is based on product sales, Vitsø is actually very service-orientated and is committed to long-term relationships with customers rather than simply increasing individual product sales. The company has a clear business strategy of offering a service and not a product although its products are of a very high quality. Profits, however, are generated on the sale of products, not on the extensive services also provided, with the cost of services included in the sale of products or, if charged separately, priced at cost. This service-oriented strategy is successful as half of the company business is from existing customers which, considering the durability and long life of the products, is a very high figure. Profit is considered to be the result of lifelong relationships and the company attempts to constantly rekindle this relationship.

Since it is one of the few businesses on the market offering a combined PS offering, the challenge for Vitsø is to educate the market about the service that comes with the product. The company’s efforts are on making customers aware upfront of what they get so that they realize the value of the service. The challenge is to communicate the value proposition to the customer effectively, particularly on the company’s website which is its main communication and sales channel.

Service culture

Vitsø’s value proposition is that it ‘matches people’s belongings to the space people have’, and that it brings order and organisation to customers’ lives. The company promotes ‘the art of living better with less that lasts longer’. Vitsø’s concept is that people should reuse their furniture, and the company views recycling as a defeat. It sees the service they offer, along with its quality products, as something customers deserve but that they do not necessarily receive elsewhere.



“It is that simple, it is what we are doing, but it is very increasingly unusual these days that companies want to offer you that service, rather than just trying to sell you the product.”

*Managing Director
Vitsø*

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CASE STUDY: VITSOE

In the furniture industry it is common to offer large discounts for products bought in large quantities, but this policy is discouraged at Vitsø. Moreover, employees do not earn commission based on product sales, as this approach only promotes sales based on quantity, not on customer needs.

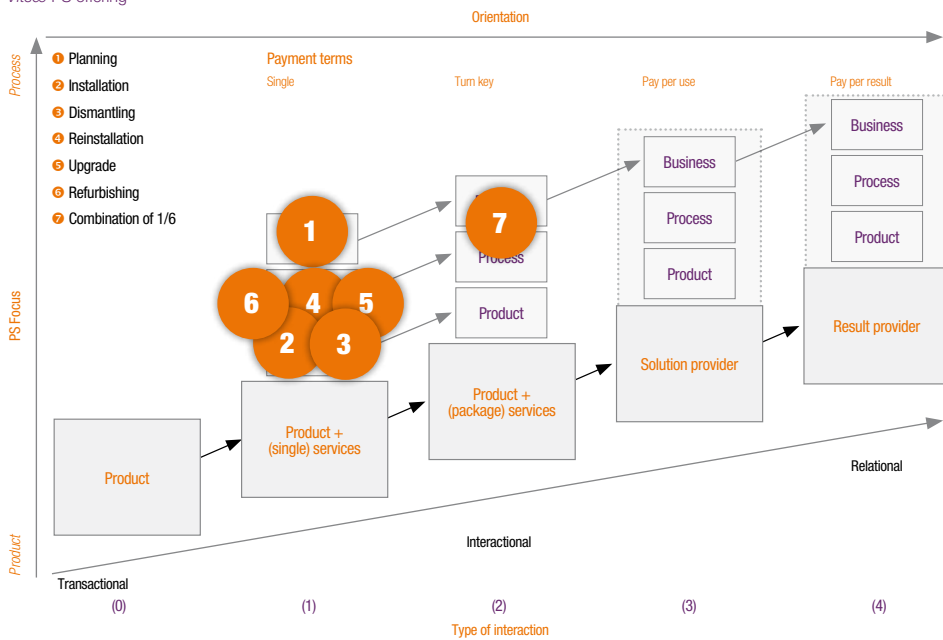
Although Vitsø's current business is based on the sale of products, the company already has the competencies in service and life cycle thinking competencies that are essential for servitization. The company is actively promoting its business as "not selling furniture but allowing you to buy its use", and it seeks to take responsibility for keeping the product cycle closed. The top management of the company is consciously trying to build a culture of trust. The staff are trained to undersell to the customer with the aim that customers should never feel pressured to buy more than they

need, or that they would be penalized for adding products at a later stage. In other words, it is no cheaper to buy more products in one go than to buy them as they are needed.

"Trust is at the heart of what we do as a business. We persuade our customers to trust us, our suppliers to trust us, our employees to trust us, and various advisors around us to trust us...and only if we set those ground rules can we encourage everybody to trust, that is critical."

Managing Director
Vitsø

Figure 5.5.
Vitsø PS offering



"The proposition that we are putting to our customers is that we can bring order, organization to their lives..."

Managing Director
Vitsø

Information sharing and internal co-ordination

Vitsø delivers its products and related services directly to its customers without going through a retailer or a distributor. Based on past negative experience with distributors who failed to convey the company's value proposition, this direct approach was defined at the outset for the company's London operation. A milestone in Vitsø's transformation journey is considered to be the stitching together of a process whereby the customer can interact with the company, online and in real-time, aligning the business processes with a seamless customer contact while constantly reducing the time involved in the process. The company has connected its front-end planning team with the back-end systems to create fully integrated processes throughout the organisation with quality control at every stage. By aligning the entire process from customer interaction through design to production and delivery, it has created a business model whereby every customer benefits from personalized service and the creation of a unique product tailored to their life now and tomorrow. As the company continues to grow its business, it is constantly changing its structure to accommodate larger numbers of customers throughout the world.

Vitsø works with suppliers that are small businesses for whom they are the major customer. The company has built a lean network of suppliers, local to the company, with whom they have established and maintained long-term relationships. Vitsø has worked, for example, with its supplier of steel shelves for 17 years. It has persuaded this company to invest in its production process in order to meet the high quality standards of Vitsø products. The supplier has had to grow its own business in pace with its major customer. Vitsø's management views suppliers as key to its success and often works through its suppliers' financial and other problems. During the transformation journey, suppliers have had to change, and invest in new capabilities in order to keep supplying the company.

Customer relationship

Vitsø sells and delivers direct to its customers and aims to establish a relationship of trust with them. The company identifies strongly with its customers, and vice versa, and it cares about its customers both before and after the sale. As a result, customers are happier and more satisfied and are often prepared to pay in advance.

"Our customers are not rich enough to buy cheaply."

*Managing Director
Vitsø*

The company tries to get to know its customers and tailors its product for them. Vitsø employees do not push sales but instead try to establish a long-term relationship with the customer. Planners, for example, do not talk about the sale but about what the customer needs, discussing the products they plan to put on the shelves. Customer feedback is taken on board and often helps the company change and improve, sometimes even to develop new products.

The customers' first contact with Vitsø is, typically, through the company website, with discussions conducted predominantly online, via e-mail, and partly on the phone. Vitsø has shops in London, New York, Munich and Los Angeles but these are viewed as support functions to the web site. The internet has become critical for the company's operations. The challenge is, therefore, how to communicate, explain and visualize the value customers are deriving from the PS offering and the service process. Vitsø is continuously looking into ways of making its website more personal so that customers get a sense of the human beings behind it who are there help them through the process.

The physical contract between company and customer has become ever more complex over time and the company relies heavily on an 'informal contract' with its customers, an example of the trust Vitsø aims to establish with its customers from the outset of the relationship. In that respect, the contract has not caught up with the combined PS offering and the value proposition, and is yet to reflect the relationship side of the deal offered by the company.



FieldBook

PART FIVE / 5.3

CASE STUDY: VITSOE

Internet technology

Vitsø operates in the design furniture market which is characterized by low technology developments, a strong focus on individual designers, aesthetics, creative forms and use of materials. Yet Vitsø has strongly embraced information technology, since the early days of commercial internet in the 1995-1996, as a means of getting closer to its customers and of communicating and selling directly to them. Today, the company website is absolutely critical in the sale of the products and services. The company has invested in the development of powerful, easy-to-use software and technology that enables customers to participate in the design process and interact with Vitsø planners online thereby enhancing customer communications and relationships. Today, 100% of Vitsø customers interact with the company online which is where the vast majority of the company's transactions take place. Although it is not a requirement for dealing with Vitsø, the website enables customers to keep records of all their planning drawings and allows them to monitor the process of their order. It also provides clear information on the selection, design and installation of its shelving systems. Vitsø shops serve to support the web-based operations.

Competencies

In order to transform the organisation from a furniture manufacturer to a genuine service business, the top management cultivated a talented team of design professionals with a deep understanding of the product and a true commitment to customer service. The company benefits from a lean, well-trained staff of planners who know the ins and-outs of the Vitsø product – how it should be designed, made, delivered and explained to the customer as well as how it is meant to function in daily life.

Management leadership and vision

From the early days of his time at the company, Vitsø's Managing Director had a clear vision and a strategy for the company to become world's number one manufacturer of shelving systems, and to deliver directly to customers. When the company experienced financial hardships in the early 1990s, it took a new manager with new ideas to move the business from Germany to the UK, set up manufacturing operations from scratch, and trigger the transformation journey for the business. Although the company went through a crisis, change was actually triggered internally by visionary leadership, and not driven by customer demands as is often the case with other manufacturing companies undertaking a servitization process.

The change drivers facilitating Vitsø's PS transformation were identified as follows.

"An absolutely clear vision of wanting to be the world's definitive shelving system."

*Managing Director
Vitsø*

Direct communication with the customer has been found to be critical for the delivery of the PS offering. Throughout its servitization journey, the company has also been learning from past experience. Based on negative experience with distributors and retailers, for example, Vitsø's management realized they would have to take control of distribution and work directly with their customers. Local manufacturing operations and a local supply chain facilitate the delivery of the PS offering and ensure the high quality of the manufactured products.



Lessons learnt

Several servitization lessons can be drawn from the transformation journey of a small-size product manufacturer into a PS provider. It is critical for the company to establish a culture of trust with its customers, suppliers and employees who are then more likely to embark on the servitization journey with the manufacturer. There is a strong sense of identity with the customer within the company, where customers are cared for before, during and after the sale. The manufacturing company has established long-term relationships with its suppliers which are themselves small local firms. The PS offering is simple, based on a small range of high quality durable and upgradeable products, with a set of services created around them which can be customized to customer needs. There is a strong emphasis on sustainability in the way the company operates and relates to the public. The value proposition must be defined and communicated effectively for the customers to appreciate the value of service, especially in traditionally product-centric industries. The company has taken control of the delivery system by removing distributors and retailers from the value chain. It is also flexible in how it structures itself. A seamless integration of functions is also a key factor for successful servitization.

Interestingly, Vitsoe's transformation journey was envisioned, initiated and carried out by a visionary leader with a clear vision and strategy for the future of the business. Technology has played a major role in the servitization of the company, in particular, the internet has acted as an enabler and a platform for communication and direct sales to customers. The company is reliant on the skills of its employees to deliver the customized service. Communication is at the core of the business and Vitsoe continuously tries to improve the message it sends to its customers.

Figure 5.6
The main factors affecting the VST servitization



"We persuade our customers to trust us, our suppliers to trust us, our employees to trust us, and various advisors around us to trust us...and only if we set those ground rules can we encourage everybody to trust, that is critical."

Managing Director
Vitsoe

PART FIVE / 5.4

CASE STUDY: SERVJET

ServJet is an Original Equipment Manufacturer (OEM) designing and manufacturing high-value capital equipment for the aerospace sector.

Over the past couple of decades ServJet has transformed itself from a loss-making firm into the world's second largest maker of large jet engines. The company today operates globally and generates over 50% of its revenue from the provision of services closely coupled to its products. The big pay-off is from selling spares and servicing jet engines. Gross margins from rebuilding engines are thought to be about 35%.

ServJet began its servitization in the early 2000s in response to customer demands. In doing so, it deliberately blurred the lines between making things and offering services. Within the decade, its revenues almost doubled. The company has made significant progress and is at a relatively advanced stage of servitization for a traditional manufacturer. In particular the company has convinced its customers to pay a fee for every hour that an engine runs, promising in turn to maintain it and replace it if it breaks down. The service is provided both with and without the ownership of the engine being transferred to the customer. This idea is not unique, but ServJet has been offering the service for more than a decade; more than half of its engines in service are covered by such contracts, as are about 80% of those it is now selling.

Cultural change

The traditional manufacturing culture was so strongly embedded in the company that it has been one of the more complex issues that ServJet has had to face and overcome in its transition towards the provision of an integrated offering. There was a tendency in the organisation to revert to a focus on product, rather than the whole integrated offering, particularly during times of stress.

"We are now a global company and we are going through huge growing pains, I mean absolutely enormous growing pains, we are struggling, our supply chains are struggling and the focus falls on the sexy new products."

*Repair Engineering Manager
ServJet*

Although ServJet's management recognized that greater customer orientation was necessary through the whole internal value chain, some parts of the organisation still could not move from their traditional cultural roots.

"Culturally, people still think that at the end it's still just a big bloody product that comes in and gets overhauled."

*Repair Engineering Manager
ServJet*

This occasionally manifested itself, for example, in the employees' slow response to customer needs, in over-engineered products, in the failure to understand customer needs and in strong supervisory controls.



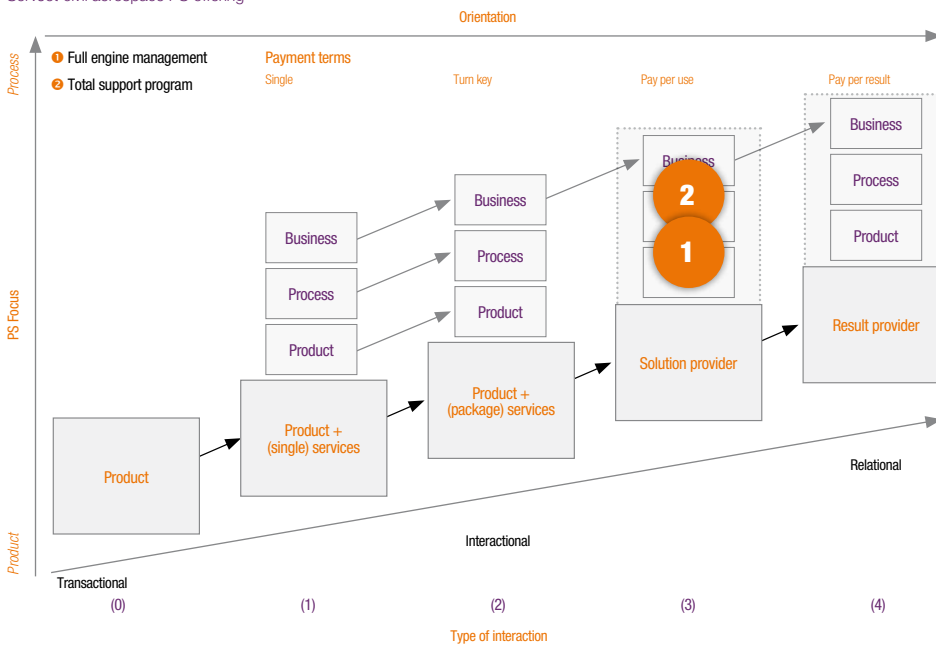
Delivery of an integrated offering

The delivery of the integrated PS offering implied a greater number of customer touch-points, with the result that a broader range of personnel were being exposed to customer contact than was previously the case. After introducing the new types of offering, ServJet faced issues in terms of definitions in contracts, in negotiations, and simply in terms of understanding what is required. The organisation had to develop an understanding of the synergies between different parts of the offering and that the whole is greater than the sum of the parts, even to the point of reversing long held beliefs in negotiations.

"[There were] grey areas in the contract... and the need for a new mind-set to deal with this, rather than exploit the opportunity available in unclear contracts."

ServJet
Customer Services Manager

Figure 5.7
ServJet civil aerospace PS offering



FieldBook

PART FIVE / 5.4
CASE STUDY: SERVJET

Internal processes and capabilities

The adoption of a PS strategy required, among other things, the acquisition of new capabilities enabling the organisation to compete in new service spaces. ServJet had to align its internal processes to support the design and change of products and services for an effective provision of the new integrated offering.

"Guys that do product change are not involved at all in service change, so guess why we decided service has to be aligned very much along the lines of process and product change."

ServJet
Customer Services Manager

Metrics designed for a "product-centred" organisation had to be re-aligned to address the provision of the integrated offering. During the transformation, it became clear that, without a specific infrastructure, ServJet would not be able to deliver what had been promised to the end customer.

"At that point it became very clear that we did not have the infrastructure in place to provide the support we had contracted for."

ServJet
Customer Services Manager

New tools and techniques had to be used to assess the internal capabilities of the organisation to design and deliver the PS offerings.

"They are the tools for assessing our ability to meet a service level of agreement just the way the joiner's hand is about to put pencil to a piece of paper."

Service Operations Director
ServJet

Strategic alignment

Engaging with the customer has been considered vital for the development and the delivery of ServJet's new PS offerings. Processes were also developed to increase understanding of the customers and their needs. A channel of communication, and a flow of information throughout the organisation, was also established to convey input from the customer right through to the engineering function. To enable people to "think like a customer" ServJet worked to create a common language and mind-set with its customers and with other parts of the organisation. This has been helped by the ready mobility of personnel between organisations/divisions as well as through workshops and similar events involving personnel from all the different disciplines. There have been, however, situations where the organisation felt that providing an integrated offering is in the customers' or suppliers' best interests, but that it is not always recognized by the customers or suppliers themselves.

"If they want it cheap they will have to accept that what [we do] is in their best interests."

Service Operations Director
ServJet

Supplier relationships

With its transition to becoming a provider of an integrated offering, the company has detected a change in attitudes towards its suppliers.

"There is a lot more talk about partnership now. A lot more talk about partnering relationships when it comes to supporting their integrated offering."

Commercial Director
ServJet Supplier

However, information sharing between ServJet and its suppliers is much more restricted when seen from the downstream side. It was restricted to such an extent that it resulted in unwanted effects not only for suppliers but potentially also for ServJet.



"We developed a culture change programme with communication training – why do we need to change, why is this important, what's happened, what's different that we need different behaviours?..."

Human Resource Manager
ServJet

Lesson learnt

Several servitization lessons can be drawn from the ServJet case.

Triggered by the customer frustration at escalating costs over time when purchasing products, and identifying a business opportunity in transforming its organisation, ServJet developed a new PS offering in response to an unmet business need. The company struggled, however, with its organisational growth and often lacked resources during the servitization process. The threat of losing customers and of competitors exploiting the value of a new combined offering was another driver for the transformation. The organisation pushed for changes in shared beliefs; design engineers and manufacturing engineers had to change their design perspectives, not just when it came to performance but also to cost-effectiveness. The company's top management realized that the transformation of the company into a PS provider is a major step and not one to be taken lightly. Establishing a channel of communication and managing the flow of information throughout the organisation was necessary to convey the message from the customer to the engineering function. The servitizing organisations needed to integrate their functions and establish a consistency in structures and processes. Setting up a company-wide training programme for the organisational transformation was also a key driver for successful servitization.

Figure 5.8

The main factors affecting the ServJet civil aerospace servitization



FieldBook

PART SIX CONCLUSIONS

This field book has been designed to support your managers in their assessment work during the transition from a product-based to a servitized strategy.

The *Organisational transformation for effective delivery of integrated products and services Fieldbook* is intended as a concise guide with several practical steps to help your organisation to understand the numerous and complex concepts associated with servitization. It is hoped that it will help generate new ideas to assist in decision-making and problem solving during the servitization process. By providing a general, yet comprehensive understanding of what is involved in managing servitization in an organisation, it could be adopted as a reference point in support of teaching activities and training courses for employees or of your service network partners. It could also be valuable for starting the debate and for expanding the discussion of servitization within your management teams. Its approach could also prove to be a useful supplement for your company strategy by presenting a complementary perspective.

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For more information about this research

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Published by Cranfield University | © Cranfield University

ISBN 978-0-9571374-1-7



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