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Capabilities for advanced services: A multi-actor perspective

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ABSTRACT

Servitization involves manufacturers developing service offerings to grow revenue and profit. Advanced services, in particular, can facilitate a more service-focused organization and impact customers' business processes significantly. However, approaches to servitization are often discussed solely from the manufacturer's perspective; overlooking the role of other network actors. Adopting a multi-actor perspective, this study investigates manufacturer, intermediary and customer perspectives to identify complementary and competing capabilities within a manufacturer's downstream network, required for advanced services. Interviews were conducted with 24 senior executives in 19 UK-based manufacturers, intermediaries and customers across multiple sectors. The study identified six key business activities, within which advanced services capabilities were grouped. The unique and critical capabilities for advanced services for each actor were identified as follows: *manufacturers*; the need to balance product and service innovation, developing customer-focused through-life service methodologies and having distinct, yet synergistic product and service cultures; *intermediaries*, the coordination and integration of third party products/services; *customers*, co-creating innovation and having processes supporting service outsourcing. The study is unique in highlighting the distinct roles of different actors in the provision of advanced services and shows that they can only be developed and delivered by the combination of complex interconnected capabilities found within a network.

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1. Introduction

Servitization has been heralded as a means for manufacturers, facing significant challenges in their core product markets, to achieve competitive advantage and create improved customer value (Baines, Lightfoot, Benedettini & Kay, 2009; Vandermerwe & Rada, 1988). It involves manufacturers developing new services to go alongside their core product offerings or even to replace their product offerings. These new services are argued to deliver customer value (Baines et al., 2009; Guajardo, Cohen, Netessine, & Kim, 2011; Vandermerwe & Rada, 1988) and generate sales revenue and profitability for firms (Fang, Palmatier, & Steenkamp, 2008). However, the shift in processes needed for effective servitization can be difficult and further research is required to understand the relevant business models for traditionally product-based organizations looking to servitize (Lightfoot & Gebauer, 2011; Ostrom et al., 2010).

This need for understanding is further exacerbated because services developed by servitizing firms are complex and varied. Indeed, significant

work has been done creating classifications for these services. Many of these classifications distinguish between whether the service is focused on the product (Services Supporting the Product [SSP]) or the customer and their activities (Services Supporting the Customer [SSC]) (Mathieu, 2001); and highlight a range of service types from 'base services' (e.g., spare parts), focused on supporting product provision, to 'intermediate services' (e.g., maintenance, repair and overhaul [MRO]), focused on maintenance of the product condition; and 'advanced services' (e.g., availability contracting and risk and revenue sharing) (Baines & Lightfoot, 2014). The latter involves bundling together products and services into complex offerings that are crucial to the customer's core business processes and have been defined as: "a capability delivered through product performance and often featuring; relationships over extended life-cycle, extended responsibilities and regular revenue payments" (Baines & Lightfoot, 2014: 22). This inherent complexity requires manufacturers to develop customer relationship building and management capabilities in order to foster an intimate understanding of their customers' business activities and, thus, how their service offerings might support the customer's core activities (Mathieu, 2001). While SSPs tend to be fixed and relatively easily defined, (e.g., delivering replacement parts), SSCs are by their nature more dynamic. Indeed, Mathieu (2001: 40) suggests that "the supplier's work concerning the [advanced] service offer never really ends". Thus, advanced services cannot be easily classified and listed, but

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instead should be seen as complex, flexible, offerings; developed in order to rapidly respond to customers' needs, by providing performance-based services that support these customers' dynamic and evolving activities. Given their complexity, advanced services, in particular, can have a major impact on both manufacturer and customer operations (Baines & Lightfoot, 2013). However, work has only recently begun to explore the specific challenges of developing advanced services.

Extant research suggests that moving to service provision requires a substantial shift in development capabilities (Antioco, Moenaert, Lindgreen, & Wetzels, 2008). This research has begun to discuss the complexity of developing and managing resources and capabilities required for successful servitization. Paiola, Saccani, Perona, and Gebauer (2013) identify the potential internal, external or mixed development of capabilities for four types of services components (services supporting the pre-sales phase, the sales phase, the after-sales phase, and the reconfiguration of customer activities). In a quantitative study of 155 UK manufacturers, Raddats, Burton, and Ashman (2015) identify resource configurations enabling the delivery of services, highlighting the statistically significant contribution of developing 'leaders and services personnel' and 'services methods and tools' to success of services. However, despite Paiola et al.'s (2013) observation that capabilities can be developed outside of the organization, servitization capabilities are often discussed from a focal manufacturer's perspective (e.g., Ulaga & Reinartz, 2011). The general presumption is that manufacturers assume responsibility for activities previously performed 'downstream' (Mathieu, 2001; Spring & Araujo, 2013) in order to grow their revenue through developing the scope of their offerings. A significant problem with such an approach is that manufacturers' internal capabilities are often inadequate for successful servitization (Paiola et al., 2013). Thus, manufacturers may need to develop new service-oriented relational capabilities, in order to work with actors in their network (Baines & Lightfoot, 2013; Gebauer, Paiola, & Saccani, 2013; Storbacka, 2011). This is particularly true for advanced services, compared with other less complex types of services (Brax & Jonsson, 2009), as they are more likely to require an integrated network of actors, beyond just the focal manufacturer (Araujo, Dubois, & Gadde, 2003; Kowalkowski, Kindström, & Witell, 2011), acting together to generate capabilities supporting the creation of such novel value offerings (Baines & Lightfoot, 2013).

Research has explored whether firms should develop capabilities internally or externally (Paiola et al., 2013). For example, Davies (2004) offers the concepts of 'system seller' for firms that develop capabilities internally and 'system integrator' for firms that adopt an external approach. Work by Kowalkowski et al. (2011) extends this to include a hybrid or mixed approach, where some capabilities are developed internally and some externally. There is, however, limited empirical research addressing the specific servitization capabilities that may need to be developed by different network actors. Hence, this study aims to investigate the manufacturer, intermediary and customer perspectives of the capabilities necessary for successful servitization with regards to advanced services.

This research makes three key contributions. First, we explicate key capabilities for advanced services. While extant literature has uncovered numerous servitization capabilities, there are still calls for a deeper understanding of how to successfully servitize (Ulaga & Reinartz, 2011); particularly in terms of the capabilities firms need to develop. Our specific focus on advanced services is in response to suggestions that critical resources and capabilities will differ for different types of services (Raddats et al., 2015; Ulaga & Reinartz, 2011). Second, by looking beyond the focal manufacturer's perspective, and taking a multi-actor perspective, we identify where these capabilities develop within a network and how network actors can support manufacturers' servitization efforts with regards to advanced services. While the literature, for the most part, suggests that servitizing manufacturers gain at the expense of other actors in the network (particularly intermediaries), given the complexity of advanced services, it is actually more likely that these services will be delivered by a network of business actors (Ng, Parry, Maull, & McFarlane, 2011). This necessarily infers that other network actors may also need specific

capabilities to support servitization efforts. However, currently there is limited research that examines the capabilities developed by network actors. Finally, we explore whether there is also a need for customers to build complementary capabilities (Spring & Araujo, 2014) in order to support the successful delivery of advanced services. The role of customers as co-creators of value (Vargo & Lusch, 2008, 2011) has been considered, with some work specifically focusing on a servitization context (e.g. Bastl, Johnson, Lightfoot, & Evans, 2012). However, research has yet to examine the specific complementary capabilities that might be required by business-to-business (B2B) customers as part of the servitization process.

The paper is structured as follows. First, key literature is reviewed and research questions developed. The next section outlines the methodological approach adopted and details the data collected. This is followed by the findings and discussion, then conclusions and recommendations. Finally, limitations and further research avenues are identified.

2. Theoretical framework

2.1. Advanced services

A number of service typologies have been developed, which often extend Mathieu's (2001) SSP/SSC distinction; e.g., Ulaga and Reinartz (2011) and Raddats and Easingwood (2010). Baines and Lightfoot (2013) use these typologies to define base, intermediate and advanced services, which are based on the SSP/SSC distinction, but provide a further delineation between the different types of offerings. More specifically, Baines and Lightfoot's (2013) typology facilitates differentiation between more complex advanced service offerings (where manufacturers' capabilities are utilized by customers and could feature risk and revenue sharing agreements) and less complex types of service offerings (e.g., the maintenance of competitors' products for a customer); both of which could be classified as SSCs, but create different contributions to customer value, with advanced services being acknowledged to offer higher levels of customer value on average than intermediate services, via improved performance, availability and reliability (Baines, Lightfoot, & Smart, 2011). This focus allows a more nuanced understanding to be developed.

Thus, advanced services address more complex, ongoing, requirements (Dachs et al., 2014); which might have previously been addressed by more discrete offerings (e.g., the sale of a product and some base or intermediate services). However, with the exception of a few researchers (e.g., Kohtamäki, Partanen, Parida, & Wincent, 2013) many studies assume equivalence between different types of services (Eggert, Högrevé, Ulaga, & Muenkhoff, 2011; Evanschitzky, Wangenheim, & Woisetschlager, 2011); which does not reflect the possibility that they could differ in terms of processes and key capabilities required to deliver them. This research focuses on advanced services in order to extend our understanding of the capabilities needed to deliver these services both within the firm and across networks, allowing the development of context-specific theories and managerial understanding.

2.2. Capabilities for advanced services

This study draws on the resource based-view (RBV) of the firm by considering firms as bundles of resources and capabilities that when combined in a conscious and systematic way can provide firms with a strategic competitive advantage (Barney, 1991; Wernerfelt, 1984). To ensure that a multi-actor, dynamic, relational perspective of resource combination is taken, the study also incorporates the interaction, relationships and network view (Håkansson, Ford, Gadde, Snehota, & Waluszewski, 2009). Thus, a firm should be more successful if it aligns its resources and capabilities in such a way as to deliver sustainable value-creation strategies together with, and for, its counterparts within a value-creation network (Möller & Rajala, 2007).

Capabilities refer to a firm's ability to deploy combinations of resources to achieve a desired goal (Amit & Shoemaker, 1993), or the firm's ability to perform productive activities (Jacobides & Winter,

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