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Strategy map of servitization

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ABSTRACT

By representing the servitization of three leading corporations via a strategy map, this multiple-case study discusses how the strategic logic of servitization can be explained by linking the key practices adopted by manufacturers to support critical processes while shifting their focus to project-based customer solutions. The results draw on data collected from solution providers operating in the metal and machinery industries headquartered in Finland. By examining the strategic actions, tools, and processes behind the implementation of servitization, this study extends recent debates on the service-based business models of manufacturing companies. For servitization theory, this study develops a strategy map for a solution provider. For manufacturing firms, this study provides a framework and a tool for benchmarking, developing and implementing a strategy while mitigating the processes of long-term value creation and appropriation.

1. Introduction

Manufacturers have shifted their focus from products to customer solutions in search of higher returns and additional growth opportunities (Matthyssens and Vandenbempt, 2008; Sawhney, 2006). This shift, described as servitization (Vandermerwe and Rada, 1988), is not a simple process, and positive outcomes cannot be guaranteed (Gebauer et al., 2005; Lee et al., 2016). Undesirable outcomes are repeatedly linked to poor implementation (Fang et al., 2008; Kohtamäki et al., 2013b; Visnjic and Van Looy, 2013). The effective implementation of servitization requires a clear understanding of the company's strategic logic, including how it intends to achieve the financial targets of servitization through supportive processes and aligned assets. Due to strategic convergence, the logic with which companies implement their strategies, rather than the strategies themselves, will emerge as the source of competitive advantage (Kaplan and Norton, 2006).

Although previous studies have discussed the core challenges and subjects in the implementation of servitization (Alghisi and Saccani, 2015; Martinez et al., 2010), only a few have provided overviews of the key processes and practices needed to execute servitization (Baines and Lightfoot, 2014, 2013; Gebauer, 2011; Storbacka, 2011; Storbacka et al., 2011). While “processes are frequently overlooked during debates about advanced services” (Baines and Lightfoot, 2013: 199), existing studies typically focus on function-specific practices without linking initiatives at different organizational levels. None of the existing studies actually describes the strategic logic of servitization through the application of a holistic approach, such as a strategy map. This lack of evidence restrains research on the sources of competitive advantage and profitability related to servitization. Therefore, a holistic understanding of the strategic logic of servitization while analyzing key initiatives and practices for strategy implementation is needed.

This study aims to improve the understanding of servitization implementation by answering the following research question: how can the strategic logic of servitization be explained by linking the key practices adopted by manufacturers when shifting their focus to project-based customer solutions? We address the research question by conceptualizing the strategic logic of servitization through a thorough review of the servitization research combined with a multiple-case study. The present study contributes to the servitization literature by identifying and linking key practices at different organizational levels that are central to strategy implementation in leading industrial companies. Based on the strategy map, the resulting framework facilitates manufacturing firms' strategic planning and effective strategy implementation.

2. Mapping the servitization strategy

The selection and execution of hundreds of interconnected activities in which companies choose to excel constitute the foundations of

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strategy (Porter, 1996). Such an activity system defines the way in which a company generates, delivers, and captures value by covering the central processes, activities, and resources of the company at different levels of aggregation. A company's potential for generating competitive advantage is determined by how well its activity systems can exploit and leverage different structural determinants of cost or buyer value (e.g., scale, accumulative learning, links between activities, capacity utilization, and vertical integration). These drivers turn competitive advantage into an operational concept (Sheehan and Foss, 2007) and explicate a company's strategic logic (Porter, 1991).

Kaplan and Norton (2000) proposed the concept of a strategy map as a cause-and-effect tool to describe the strategic logic of a company while identifying critical sources of synergy and value creation. The map includes four intertwined strategic perspectives (Kaplan and Norton, 1996): financial, customer, internal processes, and learning and renewal. The financial perspective defines how an organization can achieve financial targets by balancing short- and long-term strategies. This challenge requires the creation of appropriate value propositions for each customer segment (from the customer perspective), the development of the required internal processes to deliver the value proposition (from the internal perspective), and the alignment of intangible assets (from the learning perspective).

Companies implementing servitization represent a case in point, as strategic alignment constitutes an important challenge during the service transition (Martinez et al., 2010). After changing the strategic vision (Alghisi and Saccani, 2015), servitizing manufacturers must realign their financial targets, value propositions, processes and resources (Kindström and Kowalkowski, 2014; Kujala et al., 2010; Löfberg et al., 2015; Storbacka et al., 2013; Visnjic and Van Looy, 2013). This realignment requires the translation of the company's strategic vision into choices (Alghisi and Saccani, 2015) while introducing various initiatives, actions, and practices at different organizational levels (or strategy map perspectives), which are at the core of the next discussion.

2.1. The financial perspective

Previous research has emphasized higher profit margins, stable income and revenues, and additional growth opportunities as key financial drivers for product-centric servitization in industries in which competition and commoditization has been increasing for years (Gebauer et al., 2005; Oliva and Kallenberg, 2003; Sawhney et al., 2004; Wise and Baumgartner, 1999). As shown in Fig. 1, the first level of the strategy map illustrates the financial targets of servitization while decomposing them into two complementary levels. First, the productivity strategy aims to enhance profitability over the short-term by optimizing operations and internal processes, reducing operational expenses and costs, matching offerings and operations (Jovanovic et al., 2016), and using assets more efficiently while maintaining reasonable costs and prices (Anderson and Narus, 1995) and superior service quality (Gebauer, 2011). Although initial investments and reallocation of slack resources to uncertain service business initiatives (Fang et al., 2008; Gebauer and Fleisch, 2007) temporally reduce productivity, servitizing manufacturers must leverage knowledge and realign resources (Huikkola et al., 2016) while creating synergies that improve asset utilization and "result in cost savings and competitive differentiation advantage" (Fang et al., 2008: 2).

Conversely, the growth strategy has two components and aims to improve a) mid- and b) long-term revenues. First, by attracting new customers, entering new market segments, and incrementing the share of wallet of existing customers through deeper customer relationships, manufacturers can promote mid-term growth. Second, realigning offerings to support sales of intermediate and advanced product-related services at different stages of the product lifecycle can provide benefits over the long term. Thus, initial financial imbalances can be corrected over the medium and long term as the service business reaches a minimum sales threshold and becomes profitable (Fang et al., 2008).

2.2. Customer value proposition in servitization

At the core of the customer perspective, the value proposition is crafted to solve customers' problems (Reinartz and Ulaga, 2008) and requires a double shift from product functionality and efficiency to product effectiveness for a particular customer's processes and from short-term transactions to long-term, relational agreements (Oliva and Kallenberg, 2003; Stremersch et al., 2001). However, heterogeneous customers have different needs. For instance, Baines and Lightfoot (2014: 4) identified three generic customer types: 1) "do it themselves" customers, who only demand basic services, 2) "do it with them" customers, who demand intermediate services, and 3) "do it for them" customers, who pay for advanced services while contracting for "capabilities" offered through their "use" of a "product." In the latter case, value for customers is mainly related to product "availability and performance, along with risk and reward sharing" (Baines and Lightfoot, 2014: 22).

As a result, each customer segment requires different value propositions built on different attributes (Gebauer, 2008; Gebauer et al., 2011; Helander and Möller, 2007). Based on the three value disciplines proposed by Treacy and Wiersema (1993), Matthyssens and Vandenbempt (2008) suggested three potential value propositions for a manufacturer: a) differentiation based on product innovation and features (product leadership), b) differentiation based on service innovation and the customer relationship (customer intimacy), and c) differentiation based on operational excellence and fair value (operational excellence). According to Kaplan and Norton (2000), customer-driven organizations that aim to provide customer solutions strive to excel in customer intimacy while upholding threshold standards in operational excellence and product leadership.

2.3. Processes for crafting a customer-centric value proposition in servitization

At the third level of the map, internal processes define how a company creates and delivers the required value proposition to each customer segment (Kaplan and Norton, 2000). First, operational processes are central to productivity (Kaplan and Norton, 2004a). Therefore, servitizing companies need to centralize their manufacturing activities to integrate their supply chains (Bustinza et al., 2013) and achieve both flexibility and cost efficiency (Baines et al., 2009). In addition, reliable service processes and field service networks are critical for ensuring successful service delivery (Kindström and Kowalkowski, 2014) while providing valued and cost-effective services and identifying new service opportunities (Ulaga and Reinartz, 2011). Second, the implementation of customer management processes and practices (Storbacka et al., 2013; Windahl et al., 2004) is critical for forging long-term quality relationships with customers (Bowen et al., 1989; Gebauer et al., 2005; Kohtamäki et al., 2013a; Tuli et al., 2007). Finally, innovation processes for developing new offerings (Galbraith, 2002) must be grounded in a thorough understanding of current and future customer needs and value dimensions (Baines et al., 2009; Gebauer, 2011; Gebauer and Fleisch, 2007).

By aligning and leveraging their internal processes, companies can enhance their competitive advantage while exploiting various drivers of cost and value. For instance, companies can reduce costs by benefiting from economies of scale and scope, increasing standardization in service operations (Ulaga and Reinartz, 2011), reducing delivery costs, and increasing switching costs to lock-in customers (Reinartz and Ulaga, 2008). Manufacturers can also emphasize long-term customer relationships (Tuli et al., 2007) and highlight the co-creation of customer experiences (Vargo and Lusch, 2004). Lusch and Vargo (2006: 284) distinguished between two nested components of value