

Understanding and Managing Product-Service Concepts from the perspective of a service logic in Manufacturing Companies

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Research Context and Questions

- WHAT: Context, the **transition process** from a product orientation to a service orientation among traditional manufacturing firms
- WHY: “Commoditization” and low-cost competition → need to differentiate using services. The transition is problematic (e.g. Oliva & Kallenberg, 2003; Matthyssen & Vandenbempt, 2008) and not fully understood (Jacob & Ulaga, 2008).
- Research questions
 - how do manufacturing companies actually define services?
 - triggers to become more service oriented?
 - critical factors for product-to-service transition, i.e. barriers and drivers?

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Method – Two Studies

- Study 1
- ECO 'Engine Components' (pseudonym)
 - Hi-tech engine component manufacturer
 - Transition from **manufacturing** → **service orientation**
- More than thirty in-depth interviews with **managers** from many **different units** in the firm
 - Service development, business development, strategic development, financing department, information department, patent department
 - 60 to 120 min semi-structured (taped and transcribed)
- Archival material
 - Brochures and internal information material, house magazine (1996 – 2007)

Method – Two Studies

- Study 2 - based on findings in study 1
- Four traditional manufacturing firms
 - Various industries
 - In transition from **manufacturing** → **service orientation**
- Semi-structured interviews with **key persons** with deep insight in the product to service transition
 - About 60 min per interview

FINDINGS

Definition of service in manufacturing

Definition of service?

- Defining and understanding services in manufacturing is not evident.

The Head of Service Development at ECO:

- *“It’s funny, we’ve talked about services, and when I’m explicitly asked ‘what is a service’, it is actually hard to formulate an answer...it’s not self-evident, even for me...”*
- The word “service” is not comfortable for many people in manufacturing
 - “We are a knowledge company ... not a service company”

Definition of service?

- Three different perspectives
 - *The Service Salvationists, The Service Pragmatists, and The Service Confusionists*
- The Salvationists
 - Believe in service as the *core* in future business model
 - Manufacturing is not necessary in the future
 - Annoyed at the “old manufacturing culture”
- Service Pragmatists
 - Services are *complements or add-ons* to manufacturing operations
 - Manufacturing is the core and a necessary operation
 - “The talk about services has gone too far ...”

FINDINGS

Nature of service-to-product transition process

Transition process

- **Lengthy** and **slow** transition and no candidate for a quick disruptive change program. Rather an **evolution** than a revolution.
- The **starting** point for the transition are the company's **physical products**
- An evolutionary pattern can be discerned with up to 5 **phases**.
- The **conceptualization** of service **changes** from one phase to another

Phases from offering products to service

Phase	Customer value
1st: Supply services	Accessibility (reactive)
2nd: On-site maintenance of the products	Accessibility (proactive)
3rd: Training to better utilize the products	Efficiency and effectiveness of the physical product
4th: Production process consultancy to improve the effectiveness	Efficiency and effectiveness of the customer's processes
5th: Asset management (insourcing).	Risk reduction + effectiveness of the total company

FINDINGS

Critical factors

Reported problems when transiting towards services

- Gap between product logic and service logic; stuck in a dominant logic “manufacturing mindset”
- Problematic definition and specification of service operations
 - Lack of unifying concept for services and products
 - Development of new business models – especially for phase 3 and higher
- Pricing and charging
 - Aiming at ‘value pricing’ but stuck in ‘per-hour pricing’
 - Knowledge based services and balancing transparency
- Knowledge spillover and IPR
 - Hard to protect (no patents)
 - Giveaway of unique knowledge

IMPLICATIONS

For practice and research

Redirect the focus

- TODAY'S HOT ISSUE: Should services and products be integrated or separated?
- The above question is irrelevant as long as we are lacking a conceptualization of services for manufacturing industries
- What is needed is instead concepts that embrace both physical products and services – we call them **product-service concepts**, these should reflect:
 - the link between services and physical products, and
 - the changing nature between different phases of the product to service transition.

Transition and knowledge

- Close the gap between product logic and service logic
- Transition towards a service logic must be accompanied by education
 - Education →
 - understanding the role(s) of service
 - understanding service peculiarities
 - understanding new business models
 - both internal and external (customers)

Don't get stuck in one perspective

- Customers do not buy goods or services; they buy offerings which render service which create value (e.g. Gummesson, 1995; Vargo & Lusch, 2004-2008)
- Nevertheless, from the manufacturer's perspective, it is quite different to develop, produce and sell services compared to physical products
- Both the customers' and the manufacturers' perspective must be taken into consideration simultaneously to become successful!

Thank you!
Merci!
Danke schön!
Tack!