How do goods-centric businesses use relationships to develop services-led growth?

ABSTRACT

Purpose of paper and literature addressed: Many formerly goods-centric businesses (GCBs) operating in a business-to-business (B2B) environment are using services to grow their businesses, with this process sometimes described as service infusion (Brax, 2005). The purpose of this paper is to understand how GCBs develop suitable relationships with actors in their network to help them to enhance service(s) innovation in order to facilitate services-led growth. The literature review addresses how GCBs have traditionally constituted their services offerings based on their goods, and the problems this creates, in terms of not fully addressing customer requirements. Product and service innovation literature is considered to seek guidance on how GCBs can successfully develop new services. Literature addressing the development of relationships within industrial networks is reviewed, both in terms of relationships with customers and other actors in the network. These relationships form central tenets of the theoretical framework for the research, based on possible options for services-led growth that GCBs can undertake.

Research method: Multiple case studies will be used to investigate services-led growth in GCBs and the part that relationships play in this process.

Research findings: Results from the first case will be presented at the IMP Conference.

Main contribution: The research will contribute to service infusion research by identifying how GCBs can develop new services offerings to facilitate growth and the part that network relationships have in the innovation process.

Keywords: B2B, goods-centric businesses, innovation, service infusion, services-led growth.
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INTRODUCTION

In the face of growing competition, many formerly goods-centric businesses (GCBs) operating in the business-to-business (B2B) environment are pursuing services-led growth or service infusion (Brax, 2005), meaning that for many of these companies the share of revenue derived from services has grown substantially over the past few decades (Möller, Rajala and Westerlund, 2008). This transformation is possible as customers of GCBs are increasingly focusing on their core operations and are outsourcing many of their other business activities (Windahl and Lakemond, 2010) and this is often achieved through mobilizing existing relationships. Equally, these customers might require certain GCBs to supply goods from other OEMs, possibly less important suppliers in their network, as part of an aggregated goods and services offering (Allmendinger and Lombreglia, 2005). Some GCBs are even transforming into organisations that no longer rely on their own goods to provide market differentiation (Oliva and Kallenberg, 2003) and are moving towards delivering added value to customers through providing “solutions”, encompassing a significant services element, rather than selling individual goods (Tuli, Kohli and Bharadwaj, 2007). This change requires a substantial shift in product/services development capabilities (Srivastava, Tasadduq and Fahey, 1999) as the complexities of developing solutions are difficult to master (Day, 2004). Vargo and Lusch’s recent contention (2011) notwithstanding; that relationships and networks are central to the service dominant logic premise, many business-to-business researchers have contended for many years that relationships are central to the development of new capabilities (Araujo, Gadde and Dubois, 2003), however, the explicit role of relationships in the development of services-led growth remains underexplored.

This study is designed to analyse service infusion in GCBs, focusing on services-led growth driven by new or evolving relationships with customers, other suppliers and distributors. The centrality of relationships in business-to-business contexts is a fundamental aspect of IMP research (Håkansson, 1982; Ford, 1997; Håkansson, Ford, Gadde, Snehota, and Waluszewski, 2009) and it is this perspective of relationships and networks that is adopted in this research. The empirical research addresses changes in roles and capabilities of a range of actors both within and outside each focal GCB who play a part in the development of new services. The paper is set out as follows. The conceptual framework for the study addresses key gaps in the extant literature, namely that whilst services are often seen by GCBs as the way to grow (e.g. Jacob and Ulaga, 2008), not enough is understood about how services offerings are developed by GCBs or the role of the network in this process. The methodology includes details of the research design and approach to data collection. In terms of its contribution, the study will add to academic theory in terms of a better understanding of the process of services-led growth, based on different approaches to service infusion, particularly the role of relationships in supporting the innovation process. The research will provide practitioners with guidance on successfully infusing services within their businesses through innovation and a better understanding of which relationships to pursue to achieve this end.
THEORETICAL BACKGROUND

The theoretical framework for this research is based on how GCBs design their services offerings, how they augment these offerings through innovation and how taking a relational perspective on this can provide an alternative conceptualization. These strands of literature are now reviewed.

Much of the IMP research into relationships and networks does not explicitly differentiate between manufacturing and services, or the services that support the products that have been exchanged. Although early research in industrial marketing (e.g. Håkansson and Wootz, 1975) illustrates a focus on manufacturing contexts (see also Håkansson, 1982) the role of service was explicitly considered by Cunningham and Roberts in 1974. A more recent investigation of what is an IMP focus, Easton, Zolkiewski and Bettany (2003) illustrate that services are explicitly considered in much of the IMP research. From a services development and implementation perspective, the roles of the customer, suppliers and other actors in the network are implicit within an understanding of the interactions and adaptations that occur (Håkansson, 1982). It is therefore necessary to have an understanding of the activities, resources and actors that make up the network context (Håkansson and Snehota, 1995), which reflects Araujo and Spring’s (2006) view about the problems in assuming a simple dichotomy between products and services. This is consistent with an increasing focus on services and services-related issues in an IMP context, see, for example, Cova and Salle (2008); Zolkiewski, Burton and Stratoudaki (2008) and Ford (2011). Understanding the role of relationships in service infusion is important for managers and by clarifying this role a better understanding of both customer and supplier needs can be gained and services designed and delivered accordingly.

One approach to understanding how GCBs used to design their services offerings was proposed by Homburg and Garbe (1999) although this design was constrained through a consideration of their goods, e.g. pre-purchase, delivered at time of purchase and after-sales. Although commonly applied, this approach can lead to offerings which do not sufficiently consider customer needs (Kumar and Kumar, 2004). By focusing on customer activities and outcomes rather than goods, GCBs can develop appropriate offerings to deliver services-led growth (Sawhney, Balasubramanium and Krishnan, 2004) by developing unique capabilities providing differentiation and cost leadership (Uлага and Reinartz, 2011). There is therefore a need to re-align the services development process approach to better encompass customer requirements, possibly though creating standardised services offerings centrally but flexibly addressing customer needs locally (Kowalkowski, Brehmer and Kindstrom, 2009). The proposals by Kowalkowski et al. (2009) highlight why understanding the customer–supplier relationship is of central importance to developing services offerings. However, it can be contended that understanding interaction processes, adaptation (Håkansson, 1982) and how resources and activities are combined (Håkansson and Snehota, 1995, Håkansson et al., 2009) can provide an alternative understanding/framing of this issue.

This could involve a consideration of the activities customers engage in to procure, own, use and dispose of a GCB’s goods (Allmendinger and Lombreglia, 2005) or from a more relational perspective, analyzing resource combining scenarios (Håkansson, 1992). It is possible to segment GCB services offerings according to whether they support suppliers’ products (SSPs) or support suppliers’ customers (SSCs), with the successful introduction of the latter dependent on developing strong relationships with customers (Mathieu, 2001). The
creation of the SSP/SSC duality preceded other related typologies, e.g. discrete offerings aligned to goods (akin to SSPs), product lifecycle services (combinations of services over the goods lifecycle) and output-based solutions (akin to SSCs) (Raddats, 2011).

The recognition that new services offerings cannot simply be created by a consideration of a GCB’s goods means that its approach to services innovation becomes paramount. Whilst GCBs often see services innovation as a strategy to facilitate growth a number of problems have been highlighted that may limit the success of these initiatives, such as the established corporate goods-centric culture (Ostrom, Bitner, Brown, Burkhard, Goul, Smith-Daniels, Demirkan and Rabinovich, 2010) organisational inertia with regard to services development (Nijssen, Hillebrand, Vermeulen and Kemp, 2006) and the organizational structures of GCBs which do not allow services offerings to be developed separately from those of goods (Gebauer, Fleisch, and Friedli, 2005). The lack of a services innovation strategy to guide new services development (Gebauer, Krempl, Fleisch and Friedli, 2008) the lesser role of research and development (R&D) departments in services innovation (Nijssen et al., 2006) and the relative lack of investment in services development compared to goods (Kindström, 2010) also hamper services innovation. Various approaches to overcome these problems are identified in the product/services innovation literature and to a more limited extent in the service infusion literature.

Both the product and services literature have identified characteristics that are linked to innovation success (e.g. Brown and Eisenhardt, 1995; Henard and Szymanski, 2001; Song and Montoya-Weiss, 1998). Research has identified the importance of appropriate organisation structures and decision-making capabilities (e.g. Burns and Stalker, 2001; Cooper, 1992), particularly with respect to coordinating across-functions within (e.g. Griffin and Hauser, 1996; Thieme, Song and Shin, 2003) and outside the firm (e.g. Ragatz, Handfield, and Scannell, 1997; Jassawalla and Sashittal, 1998; Athaide, Meyers, and Wilemon, 1996). Communication flows have been identified as vital for both new product development (Souder and Moenaert, 1992; Clark and Fujimoto, 1991) and for new services development (e.g. de Brentani, 1989; Easingwood and Storey, 1991; Lievens and Moenaert, 2000). Customer portfolios (Yli-Renko and Janakiramma, 2008) and network capabilities and competencies (Håkansson and Lundgren, 1995; Pittaway, Robertson, Munir, Denyer and Neely (2004); Ritter, 1999) have also been shown to be influential in innovation success. Finally, a need to focus on the benefit or utility for the customer has been identified in order for new offerings to succeed (Berry, Shankar, Paris, Cadwallader and Dotzel, 2006; Burton and Easingwood, 2006; Kim and Mauborgne, 2000).

In the service infusion literature two scenarios are proposed; whereby services are developed 1) during the goods development process, and 2) during their usage phase (Gebauer et al., 2008). Whilst it is recognised that both scenarios require the involvement of frontline employees, who need to be well informed about customer needs (Gebauer et al., 2008), little emphasis seems to be placed by these authors on actually involving customers in the development process itself. Consideration of relational aspects such as adaptation (Håkansson, 1982; Brennan, Turnbull & Wilson (2003) could provide an alternative basis for understanding these issues. Kindström (2010) goes further and identifies the need for GCBs to understand customer processes and their impact on customers’ customers, i.e. their networks. Another issue highlighted, affecting both scenarios, is information sharing across multi-functional teams (Gebauer et al., 2008). Two issues particular to services innovation during the goods usage phase are the presence of a services champion to mobilise resources and overcome barriers and the autonomy of frontline employees to explore new services
opportunities (Gebauer et al., 2008). Although the preceding analysis suggests that intra-company relationships are important for services innovation a more relational perspective would contend that this development occurs through on-going relational processes and is part of everyday interactions and adaptation processes (Håkansson, 1982; Turnbull, Ford and Cunningham, 1996). Furthermore, such a perspective would contend that inter-organisational networks are critical to a firm’s ability to innovate successfully (Axelsson & Easton, 1992; Håkansson & Snehota, 1995; Bolton, Smith and Wagner, 2003). Of course, the nature of a relationship, i.e. whether it is close/distant, cooperative/non-cooperative is also going to have an effect upon this (Wilson, 1995).

Building and maintaining relationships within industrial networks is a critical strategy (Gadde, Huemer and Håkansson, 2003). When developing solutions comprised of goods from multiple suppliers; services knowledge and expertise concerning these goods become important if the GCB is to be the systems integrator (Davies, Brady and Hobday, 2007). In these circumstances effective collaboration with each supplier is important (e.g. services teams working together), with a particular project needing to be seen as a component in a longer business relationship between the companies (Cova and Salle, 2008; Ford, 2011). Industrial networks may also include distributors which can be an effective means to service the aftermarket of a GCB’s products (Ford, Gadde, Håkansson and Snehota, 2003), with GCB customers potentially viewing them as an extension of their buying function providing advice and suggestions for goods use (Hutt and Speh, 2007). It is also important to recognize the indirect as well as direct network relationships that may be affected by services provision, for example customers’ customers may significantly impact upon services requirements (Cova and Salle, 2008).

**Theoretical Framework**

This research aims to develop the theoretical model proposed by Raddats and Easingwood (2010) (see Figure 1 below) which outlines a number of services growth strategies based on whether the service offering is focused on the goods or the customer and whether the offering is sole vendor or multi-vendor in a more relational context. While the strategic options the model proposes are acknowledged, it can be argued that it neglects the role of both individual relationships and the wider network in the consideration of how strategy can be enacted (cf. Baraldi, Brennan, Harrison, Tunisini & Zolkiewski., 2007). As part of a services engagement strategy services offerings will often align to the GCB’s goods (akin to SSPs – Mathieu, 2001). Growth options A-C on the model, however, might offer new services revenue streams (via developing services extension or services penetration) or corporate transformation into a solution provider (services transformation) (Raddats and Easingwood, 2010). Raddats and Easingwood (2010) found that many GCBs adopt a ‘Services engagement’ strategy, despite the fact that this approach may not be sufficient to achieve growth for many GCBs (Gebauer, Friedli and Fleisch 2006). As part of transitions A-C new services offerings need to be developed not only akin to SSCs (Mathieu, 2001) but also appropriate to the other strategies outlined. This necessitates a focus on services-led growth that encompasses goods from other network actors (Davies, et al., 2007) and interactions with customers. The link between services innovation and network relationships has not been adequately researched even though the involvement of network actors appears central to the development of valued services offerings. The purpose of the study is therefore to investigate how GCBs facilitate services-led growth through services innovation and diffusion, and the role that internal and external relationships play in this process. The research question is therefore to understand
what role relationships with other network actors play in the creation and diffusion of new services offerings?

Figure 1 – Services-led growth options (A-C), adapted from Raddats and Easingwood (2010: 1341)

METHODOLGY

Research Design

A comparative research design is to be employed (Bryman, 2008) using multiple ‘explanatory’ case studies to critically examine existing theory and enable the research team to develop guiding theory (Yin, 2003) on developing services within GCBs. Support for this approach can be identified in Siggelkow (2007) finding that case studies are particularly useful to illustrate causal relationships between constructs and Hartley (2004) highlighting that case studies engender understanding of the impact of environment and organisation specific context on social process. This approach is also argued to be a strong research strategy for studying both relational and network level processes (Easton, 1995; Halinen and Törnroos, 2005; Heikkinen, Mainela, Still and Tähtinen, 2007). Yin’s (2003) five-stage approach for designing a case study will be adopted (outlined below), focusing on: (i) a study’s questions, (ii) its propositions, (iii) its unit(s) of analysis, (iv) the logic linking the data to the propositions and (v) the criteria for interpreting the findings.

The research question has been previously presented as part of the conceptual framework and is designed to elicit case explanation and description (Yin, 2003: 15), whilst the focus of the initial research includes the focal company’s services organisation, services culture and network relationships. For the purposes of this study network actors are anticipated to be within the GCB’s organisation (e.g. corporate leaders, marketing, sales and services operations) and actors within the GCB’s micro-environment (e.g. customers, other equipment

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suppliers and distributors). The study’s units of analysis are GCB service(s) offerings. The case will focus on the relational processes required to add services offerings, including exploration of the problems/barriers to successful services innovation and analysis of how these might be overcome. The criteria for interpreting the findings will be partly predicted for each proposition before the empirical research, e.g. as part of growth option B a company’s services offerings might be expected to change from being based on discrete offerings linked to own goods to bespoke offerings that encompass activities in the customer’s operational environment. However, although a priori coding categories will exist within the structure of the interview schedules developed, new categories will also be allowed to emerge from the data itself using a part-to-whole mode of interpretation (Thompson, Locander and Pollio, 1989). This is important because the research should not be too theoretically predetermined and risk prematurely narrowing analytical focus and the scope of insights developed (Glaser and Strauss, 1967; Andersen and Kragh, 2010).

The empirical research consists of six case studies that are illustrative of the three growth options outlined in Figure 1 (the sub-groups) and casual mechanisms through which services innovation takes place. For each growth option, the study will include at least two case studies which provide ‘literal replication’ (Yin, 2003) whereby each one predicts similar results. For each sub-group, each pair of case studies provides ‘theoretical replication’ (Yin, 2003) whereby contrasting results are found, but for predictable reasons. In line with Raddats and Easingwood’s (2010) findings that companies in the aerospace, defence, information technology, medical instruments, telecommunications and transport sectors are most likely to undertake service infusion; the case studies selected for this research will be drawn from a number of these sectors through purposive sampling. The case studies should therefore offer the opportunity to identify cross-industry best practice, since even though core goods can differ widely across different sectors supplementary services are often very similar (Lovelock, 1994). This reflects an aim of selecting cases from which the researchers can “learn the most” (Stake, 2005: 451) allowing “illuminating” comparison of similarities and contrasting concepts (Hartley, 2004: 326). The first case study will be used to assess the effectiveness of the proposed methodology and the results of this will be presented at the 2011 IMP Conference together with any proposed amendments to the research design.

Data Collection

The primary approach to data collection will be through interviews with GCB actors. Each case study is to be “sponsored” by a key informant senior manager or gatekeeper (Creswell, 1998) within the company in order to ensure appropriate access to key individuals. These individuals will be approached initially via letter and offered summary research findings in order to encourage participation in the research and set-up initial meetings. The target is to interview 6-8 actors per company, approximately half internal and half within the company’s network. Interviews will be semi-structured and will be recorded, transcribed and analysed. As part of the sense-making process, identified themes will be presented back to the company to enable interviewees to validate and approve the findings. The process of approval provides an ethics check on the research (Stake, 2005). Documentary evidence will also be sought for each company, e.g. websites, financial reports, archival records, physical artefacts and direct observation will be utilised where possible in order to exploit multiple sources of evidence to triangulate the data (Yin, 2003). This will help the researchers to identify differing realities inherent in socially constructed experiential knowledge (Stake, 2005). For the first case study, a preliminary site visit will take place which will include presentations from key informants in the three primary business units that have been selected for studying the
company's services growth strategies. An initial research protocol (Yin, 2003) will be established by the researchers following this orientation; however the approach will remain fluid and flexible throughout data collection (Hartley, 2004).

In order to ensure the quality of the research a number of procedural issues must be addressed (Yin, 2003). In terms of construct validity in addition to utilising multiple data sources and having key respondents review case drafts, evidence chains will be sought (Yin, 2003) with changes in the study propositions providing a strong indication of a changing strategy, e.g. if GCB employees now provide services on multi-vendor products (rather than just their own) then this might be an indication of a change to the services strategy. Internal validity will be demonstrated through explanation-building (Yin, 2003) via identification of casual relationships during strategy changes, aided by the use of a research team (Hartley, 2004). External validity (generalising to a theory) will be provided by replication of the results to provide support (or otherwise) for the legitimacy of Raddats and Easingwood’s (2010) model of services-led growth. Reliability will be demonstrated through documented procedures so that another researcher could repeat the study and achieve comparable results.

**MAIN CONTRIBUTIONS**

The study will provide valuable contributions to academic theory in two main areas. Firstly, within the service infusion literature and how GCBs evolve their services offerings in light of different growth strategies using relationships with network actors. Secondly, how services innovation takes place within GCBs adding to existing knowledge on innovation. The research will also provide practitioners with guidance for augmenting the role of services in their businesses and an understanding of how successful services innovation might take place.
BIBLIOGRAPHY


